Mexican oil
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FT NEWSPAPER of THE YEAR

FINANCIAL TIMES

Europe's Business Newspaper | THURSDAY OCTOBER 8 1992 | D8523A

Allies outline ban on Serbian combat flights

The US, Britain and France approved the outlines of a UN draft resolution to ban Serbian combat flights in Bosnia, but with no immediate provision for enforcement, diplomats said last night. That could, however, be the subject of a subsequent Security Council measure if the Serbs defy the ban. Page 3; Picture, Page 16

Crash "black box" found: Accident investigators recovered the "black box" flight data recorder from the El Al Boeing 747 cargo jet which crashed into two Amsterdam housing blocks, but officials warned that it was badly damaged. Page 3

German interest rates: The Bundesbank fuelled expectations of a further easing of German interest rates by drawing back from its earlier insistence on the M3 measure of money supply, including cash in circulation, current account and short-term deposits, as the most important indicator of domestic monetary stability. Page 16

German markets: A single German stock exchange, a holding company called the Deutsche Börse, the German Exchange, will operate from the beginning of next year, although exchanges will retain their independence. Page 17

BCCI: Creditors of the collapsed Bank of Credit and Commerce International fought to postpone approval of the once-and-for-all compensation plan, but it seemed likely the plan would be cleared in Luxembourg on October 22, ending the legal procedure. Page 16

Savimbi invited to join coalition:

Angola's MPLA government, victors in the country's first free elections, invited Unita and its rebel chief Jonas Savimbi to join a government of national unity if it accepted electoral defeat. Angola's peace process has been threatened by Unita's claims of election fraud. Page 5

Canadian constitution: Opponents of Canada's proposed new constitution have opened up a wide lead in several key provinces, less than three weeks before a national referendum on the constitutional package. Page 6

Hope for Gatt talks: Brussels officials said this weekend's EC-US talks on a Gatt trade agreement represented the best chance of a breakthrough to date, but warned that outstanding issues on agriculture, services and market access remained fraught with difficulty. Page 7

Indian sell-off: India is to sell shares in eight of its best performing government-owned enterprises on October 14 in the second phase of the government's privatisation programme which is expected to raise Rs35bn (£730m). Page 5

Mercedes-Benz reported a 7 per cent fall in car sales worldwide in the first nine months of the year to 397,000, despite turnover rising because of higher sales of the top of the range S-Class luxury car. Page 17

Societe Générale announced an 8 per cent increase in interim profits to FFr1.98bn ($410m) for the first half of 1992, bucking the trend among France's big banks. Page 17

General Accident, Scottish-based composite (general and life) insurer, announced that it has agreed to acquire the Canadian business of the Prudential Corporation, the UK life and financial services group, for C$165m ($132m). Page 17

Lufthansa, German flag-carrier, is to cash in on China's developing aviation boom by strengthening its presence as the largest European airline serving the Chinese market. Page 19

Fujitsu, Japanese computer company, confirmed its capital spending would be below forecast levels as the Japanese electronics industry came under pressure from international weakness in the computer and semiconductor markets. Page 19

Qantas, government-owned Australian airline, reported a 209 per cent increase in net profit to A$137m ($98.7m) for the year to the end of June, marking a solid recovery from its earlier financial problems. Page 19

Citicorp, leading US bank, disclosed it can no longer make acquisitions or add to its assets without the approval of federal banking regulators. Page 19; A week of woes, Page 15

■ STOCK MARKET INDICES		
FT-SE 100	2,517.1	(+28.7)
Yield	4.78	
FT-SE Eurotrack 100	971.85	(+18.76)
FT-A All-Share	1,198.87	(+1.1%)
Nikkei	17,111.74	(−156.36)
New York:		
Dow Jones Ind Ave	3,178.46	(+0.27)
S&P Composite	407.38	(+0.20)
■ US CLOSING RATES		
Federal Funds	3%	(3%)
3-mo Treas Bills: Yld	2.859%	(2.777%)
Long Bond	97 1/16	(98)
Yield	7.48%	(7.411%)
■ LONDON MONEY		
3-mo Interbank	9%	(9⅛%)
Liffe long gilt future:	Dec 95⅜	(Dec 94 25/32)
■ NORTH SEA OIL (Argus)		
Brent 15-day (Nov)	$20.45	(20.350)
■ Gold		
New York Comex (Oct)	$351.0	(350.1)
London	$350.75	(350.15)

■ STERLING		
New York:		
$	1.7185	(1.71325)
London:		
$	1.717	(1.712)
DM	2.4725	(2.4475)
FFr	8.395	(8.3075)
SFr	2.1675	(2.1375)
Y	206	(205)
£ Index	82.8	(81.7)
■ DOLLAR		
New York:		
DM	1.4585	(1.428)
FFr	4.9225	(4.845)
SFr	1.2742	(1.2465)
Y	128.4	(119.75)
London:		
DM	1.44	(1.43)
FFr	4.89	(4.8525)
SFr	1.263	(1.248)
Y	120	(119.8)
$ Index	68.8	(same)
Tokyo close Y 119.78		

Austria	Sch30	Greece	Dr250	Lux	LFr60	Qatar	QR12.00		
Bahrain	Din1.250	Hungary	Ft192	Malta	Lm0.50	S.Arabia	SR11		
Belgium	BFr60	Iceland	IKr180	Morocco	MDh13	Singapore	S$4.10		
Bulgaria	Lv25	India	Rs20	Neth	Fl 3.50	Spain	Pta200		
Cyprus	C£1.00	Indonesia	Rp3800	Nigeria	Naira20	Sweden	SKr14		
Czech	Kcs35	Israel	Shk5.50	Norway	NKr15.00	Switz	SFr3.00		
Denmark	DKr14	Italy	L2500	Oman	OR1.50	Syria	SyP50.00		
Egypt	E£4.50	Jordan	JD1.50	Pakistan	Rs35	Thailand	Bht50		
Finland	FM12	Korea	Won 2500	Philippines	Pso45	Tunisia	Din1.250		
France	FFr6.50	Kuwait	Fils.600	Poland	Zl 22,000	Turkey	L6000		
Germany	DM3.30	Lebanon	US$1.25	Portugal	Es190	UAE	Dh10.00		

Patten announces wide-ranging reforms in welfare and education

Democracy plan for Hong Kong angers Chinese

By Simon Holberton in Hong Kong

AMBITIOUS PLANS for democratic reform in Hong Kong were unveiled by Mr Chris Patten, the British colony's governor, yesterday to the irritation of China and a mixed reception locally.

Opening the 1992-93 session of the Legislative Council, the local legislature, Mr Patten made proposals that would lead to a significant increase in the level of democratic representation at elections due in 1995.

Xinhua News Agency, China's unofficial embassy in Hong Kong, which was briefed by Mr Patten on Tuesday, last night accused the governor of ignoring confidentiality, and of irresponsibility.

It said Britain had ignored a request from China that the plans should be agreed with Beijing before they were unveiled. It warned that China would not be held responsible for any controversy arising from the unilateral publication of his plans.

In addition to political development, Mr Patten outlined a multi-billion Hong Kong dollar spending programme to improve the colony's social welfare and education system, and to address the colony's pressing environmental problems.

He announced the creation of a Hong Kong Monetary Authority which will result from the merger of the Office of the Exchange Fund – which manages the colony's foreign exchange reserves and sets interest rates – and the office of the banking commissioner.

Mr Patten flies to Beijing in two weeks' time to discuss his plans with the Chinese leadership.

Mr Martin Lee, leader of the United Democrats, said Mr Patten had taken the easy way out. A decision to split the executive from the legislature was "retrograde."

"What he should have done – the right and honourable thing to do – is give us full democracy now and use the next 4½ years to convince China," Mr Lee said. "Poll after poll shows that Hong Kong people want democracy although they know China would not approve."

Mr Patten's plan does not include an increase in the number of directly elected seats to the legislative council – 20 in 1995. But it would lead to a significant increase in the level of democratic representation by broadening the franchise for the remaining 40 seats in the legislature.

However, Mr Patten said he would continue to press Beijing to accept a greater number of directly elected members of the legislative council.

"The pace of democratisation in Hong Kong is, we all know, necessarily constrained," he said. "But it is constrained, not stopped dead in its tracks."

The governor said his ideas were consistent with the Basic Law – the colony's Beijing-drafted mini-constitution that comes into effect at the end of British rule in 1997 – and followed consultation with the colony's political and community leaders.

Mr Patten said his proposals struck a balance between the democratic aspirations of Hong Kong's people and "the implacable realities of history, geography and economics [which] determine the way in which such views can be applied," he said.

The governor also reshuffled his Executive Council, or quasi-cabinet, and outlined ways in which the Legislative Council could become more effective in monitoring the business of government. He promised more openness and offered to appear before the council monthly to take legislators questions on government policy.

Mr Patten will address public meetings on his plans this week and has many radio and television appearances booked.

But as well as trying to build local support for his plans, he also faces months of gruelling negotiations with the Chinese government. Relations, already strained due to disagreements about the financing of the colony's multi-billion dollar airport project, may deteriorate further.

Blueprint for Hong Kong, Page 4

Governor Chris Patten: drew sharp reaction from China

Russians 'doomed for next 25 years'

By Chrystia Freeland in Moscow

RUSSIAN officials yesterday painted an apocalyptic picture of a country so full of chemical and organic toxins that even if all pollution were miraculously to stop today, the Russian people would be stunted for the next quarter century.

"We have already doomed ourselves for the next 25 years," Mr Vladimir Pokrovsky, head of the Academy of Medical Sciences, told a news conference called to publicise the Russian government's first full revelations of the damage done to health and the environment by 70 years of communist rule.

"The new generation is entering adult life unhealthy. The Soviet economy was developed at the expense of the population's health."

The figures cited by Russia's top scientists and environmental politicians were numbing. In a reversal unprecedented in industrialised countries, Mr Pokrovsky predicted that diseases in pregnant women would rise from 83 in 1,000 to 110 in 1,000 in coming years.

After they are born, Russian infants fare no better, with 11 per cent of them suffering birth defects. They become sicker as they grow and about 55 per cent of schoolchildren suffer health problems. Their health is worsened by drinking water, half of which is contaminated by chemical and organic toxins, according to Mr Evgeni Beliaev, chief Russian health inspector. He said 10 per cent of food was unhealthy.

Ill while they are alive, Russians are dying sooner. Life expectancy fell in 1992 to 69 years for women and 63 years for men, a drop from 1991 figures of 74 years for women and 64 for men. The 25-40 age group is hardest hit by illness and early death.

Nuclear power, according to Mr Viktor Danilov-Danilian, the Russian minister for the environment, poses a greater threat than was previously believed. He said that the VVR reactors, which make up the majority of Russia's nuclear power capacity and which conventional wisdom holds are safer than the RBMK-type reactor at Chernobyl, are actually the most dangerous.

Continued on Page 16

Thatcher attack shatters hopes of unity

By Philip Stephens and Ivo Dawnay in Brighton

A VITRIOLIC attack on the Maastricht treaty by Lady Thatcher, the former UK prime minister, last night shattered Mr John Major's hopes that divisions over Europe had been put to rest at the ruling Conservative party's annual conference.

After a day in which Mr Michael Heseltine, trade and industry secretary, had led a succession of cabinet ministers in backing the prime minister's stance, Lady Thatcher derided Maastricht as a "vision of the past".

She repudiated the European exchange rate mechanism as a "ruinous straitjacket".

Her scathing intervention on the eve of her appearance alongside her successor on the platform in Brighton drew an angrily curt response from the prime minister. He told reporters: "It is a matter for her, not me ... I will address government policy on Friday, the policy which has the cabinet's complete and unanimous support."

Lady Thatcher, who had indicated last week she had no intention of disrupting the conference, used an article in today's issue of The European newspaper to do just that: "The government must recognise that Maastricht, like the ERM, is part of the vision of yesterday. It is time to set out the vision for tomorrow."

Lady Thatcher: time to set out the vision for tomorrow

Her joint appearance with Mr Major on the platform this morning now threatens an uncomfortable test of the loyalties of party activists who earlier this week cheered a similar attack on Maastricht by Lord Tebbit.

It also risks overshadowing Mr Norman Lamont's efforts in a speech today to reassure financial markets he will put in place a coherent economic strategy.

Senior ministers said Lady Thatcher's comments had been deliberately timed to undermine Mr Major's authority. One member of the cabinet said she had become "twisted and embittered" since losing power.

Mr Kenneth Clarke, home secretary, echoed that sentiment with a reminder that Lady Thatcher had taken sterling into the ERM: "How can a former prime minister come along and attack her successor about a decision in which she was the senior partner?"

Mr Heseltine reminded the former prime minister she had taken Britain further into Europe: "She had to make the lonely decisions in power. And every time she had to make them she took us deeper and further into Europe."

Another ex-prime minister, Sir edward Heath, spoke more bluntly: "She hates Europe, she hates all Europeans."

Earlier Mr Heseltine had confronted critics of Maastricht at the conference in an effortlessly barnstorming speech which won him an enthusiastic ovation.

Insisting that membership of the Community was in Britain's "national self-interest" he warned of the threat to inward investment and the City of London if Britain left the mainstream of Europe. "If you want to hand that over to the Germans and the French, all you have to do is see us marginalised on the periphery of Europe."

Conference reports, Page 10

Ciments Français chairman quits over undisclosed losses

By Alice Rawsthorn in Paris

CIMENTS Français, one of France's largest cement companies, was yesterday surrounded by controversy after the revelation of losses on off-balance sheet financial dealings believed to amount to several hundred million francs.

The announcement triggered the resignation at an emergency board meeting yesterday morning of Mr Pierre Conso, the chairman. The discovery could have serious implications for the sale earlier this year of a controlling stake in Ciments Français to Italcementi, the Italian building materials concern, by Paribas, one of France's most prestigious investment banking groups.

Italcementi, which in April agreed to pay around FFr6bn ($1.25bn) for a controlling holding in the heavily indebted French cement maker, identified the off-balance sheet losses after an in-depth audit of Ciments Français. The discovery, first disclosed by a report in yesterday's Les Echos newspaper, was later confirmed by the Ciments Français board.

The original deal between Italcementi and Paribas preceded an unsuccessful share placing in July, which left the French bank and Italy's Mediobanca with large chunks of Ciments Français' equity. Italcementi owns 45 per cent of Ciments Français, with Mediobanca holding 15 per cent and Paribas 34 per cent.

Yesterday's revelation fuelled speculation that Italcementi may claim compensation from Paribas for part of the purchase price. "It looks as though Italcementi will try to get some form of compensation, even if it involves a legal battle," said Mr Pierre Boffet, analyst at the James Capel securities house in Paris.

Paribas's shares fell sharply yesterday in Paris from FFr291 to FFr278.5. Ciments Français'

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Gap widens between business and politicians over benefits of European monetary union

German doubts grow about single currency

By Quentin Peel in Bonn and Christopher Parkes in Frankfurt

GERMAN business managers, unlike their national representatives, are becoming increasingly sceptical about the advantages of a single European currency, according to a new opinion survey.

Only 40 per cent of German enterprises questioned by the Ifo economic research institute are now in favour of such a currency, compared with 60 per cent three years ago.

However, a growing number believe that it will be introduced for political reasons, in spite of the apparent opposition of the business sector.

The results of the survey coincided with remarks from Mr Hilmar Kopper, the chief executive of Deutsche Bank, suggesting that the EC should set its sights on establishing a "lean" monetary union, excluding some member states until they meet entry conditions.

Mr Kopper said economic reason dictated that the formal deadline for currency union – 1999 at the latest – could not be met. At the same time the EC should re-examine plans for an automatic shift to a single currency later this decade. Only three members, excluding Germany, so far met the convergence criteria set down in the Maastricht treaty, he said.

German concerns about the pace and nature of monetary union coincided with a new broadside at the unnecessary regulations emanating from Brussels, published by the German Chamber of Commerce and Industry (DIHT), in support of the campaign for greater "subsidiarity" – or devolution of decision-making – in the EC.

The DIHT singled out a series of directives from Brussels, such as the package tour directive, the directive on time-share contracts, and the European Commission recommendation on the regulation of insurance brokers where it says regulation should be done at the national level.

The scepticism and criticism comes only two days after the leaders of German industry publicly backed Chancellor Helmut Kohl in his ambition to press ahead urgently with ratification of the Maastricht treaty, underlining the obvious division between German public opinion and the Bonn establishment.

The Ifo survey shows that no less than 80 per cent of the businessmen questioned believe that the treaty requires improvement. Of those, 7 per cent want improvements in the provisions for political union, 24 per cent economic and monetary union and 69 per cent want improvements in both parts of the document.

The proportion who believe that "our hard D-Mark cannot be replaced by anything else" has risen from 35 to 49 per cent over three years. However, there is a marginal fall – from 80 to 76 per cent – in the number who believe that a European currency would be less stable than the D-Mark.

The Ifo researchers say German businessmen have always been more sceptical about the advantages of the single currency than their EC partners. Four-fifths of them already denominate all their cross-border trade in D-Marks, and therefore do not suffer from exchange rate risks.

The DIHT insists rapid ratification of Maastricht is still most desirable. But it backs the campaign for more subsidiarity.

Deutsche Aerospace (Dasa), the Daimler-Benz subsidiary which includes most of Germany's key aerospace contractors, is to cut its workforce by 7,500 in the next two years because of reduced orders, writes Quentin Peel. The cuts, more than 10 per cent of the 70,000 employees in companies ranging from Deutsche Airbus to MBB and MTU, will affect all main divisions.

The job losses, which may include redundancies as well as natural wastage, do not take into account possible cancellation of the European fighter aircraft programme, in which Dasa is the German partner.

The company is also a partner with France's Aerospatiale in the Tiger anti-tank helicopter project, another scheme where German participation is now in doubt.

No major defence contracts were expected in the next two years, a spokesman said.

Europe adds a fiscal choke to monetary grip

David Marsh on the dangers of widespread budget squeezing

ALL OVER Europe governments are mounting a determined attack on budget deficits. They are trying to convince the foreign exchanges of their financial rectitude and prepare the way for non-inflationary growth.

The 1993 budget plans drawn up or under discussion in most European Community and Nordic countries aim to dole out further doses of painful medicine. The problem is that, labouring in a phase of economic doldrums and high interest rates, Europe's finance ministries may be collectively applying the fiscal brakes in the wrong way and at the wrong time.

Many individual government decisions – such as Germany's efforts to restrain spending to finance German unification, or Italy's attempts at thoroughgoing budgetary reform – are plainly necessary.

With tight money and slow growth, they may be applying the brakes in the wrong way and at the wrong time

[illegible]wever, the cumulative [illegible] of the budget pruning, [illegible]g from large cuts in [illegible]security to reduction in [illegible]ient programmes, may [illegible]pe towards a further [illegible]lowdown next year.

[illegible]rge Magnus, international [illegible]nomist at S.G. War[burg in L]ondon, estimates the [contr]actionary effect of [the] budgetary plans in [Euro]pean countries (see [table]) [repr]esents 1¼ per cent [of the n]ations' gross domes[tic product].

[illegible]ank's calculations [illegible]ly to the "discretion[ary" me]asures taken by gov[ernmen]ts to reduce deficits [throug]h revenue increases or [spend]ing cuts. They exclude [au]tomatic increases in defi[cits] caused by the effect of a [slo]wdown in growth, which [de]presses tax revenues and [b]oosts pay-outs on social secu[rit]y and unemployment.

Even if not all the measures [an]nounced during the last few [we]eks are put into effect – an [out]come which seems espe[cia]lly likely in Italy – Mr Mag[nus] is concerned that govern[me]nts may be indulging in "[fisc]al overkill".

[H]e warns: "If private sector [acti]vity is going to be [depr]essed for some time, this is [the] wrong time to cut back [spen]ding in public investment."

Jonathan Wilmot of Credit Suisse First Boston in London worries that Europe may be fighting "deflation with deflation". Because of the impact of high capital market interest rates, Mr Wilmot points out that individual efforts to cut deficits are often being counteracted by rising debt service costs.

Mr David Hale of Chicago-based Kemper Financial Services says that governments which inflated their budget deficits in the first half of the year to compensate for over-tight monetary policies are now seeking a return to fiscal orthodoxy.

"This [cuts in budget deficits] is all right if you do it over three years. But if you do it during just one year, you deepen recession," he says.

Mr Hale expects that the Bundesbank – which has already started making significant reductions in its money market interest rates – will decide further interest rate cuts by Christmas. This will take some pressure off European economies – but a "weak 1993" is unavoidable, he says.

Mr Hans-Peter Fröhlich, international economist at Institut der deutschen Wirtschaft in Cologne, a business-orientated research institute, says most European countries are embroiled in some form of asset price deflation. With the private sector heavily constrained, fiscal contraction is being decided "at the worst possible moment", he says.

"What we want is expansionary policies and a return to international policy co-operation."

Mr Fröhlich points to the fundamental problem posed by German interest rates. While the Bundesbank's monetary stance has caused difficulties for the rest of Europe, premature action to lower German interest rates would damage the German central bank's anti-inflation credibility – and would lead to higher rather than lower D-Mark interest rates on the capital market.

European governments face a collective dilemma of not knowing when the long-awaited upturn in economic activity will eventually arrive, says one top international policy-making official.

Pointing to the risks that government could be pressed at the wrong time into expansionary budget measures, he says: "We're at precisely the moment in the past when we've panicked – and we've found out later that the recovery has already started."

Partly because of the trauma caused by the last few weeks' currency turbulence, European countries are sticking to "safety first" in their 1993 budgets.

But, in trying to win the favour of the foreign exchange markets, governments clearly face the risk that they will be ploughing collectively not into recovery – but into recession.

[Pl]oughing into recession

[Euro]pean countries' 1993 budget plans

	Action	Effect on GDP (%)*
[illegible]	Spending cuts	-1
[illegible]	Cuts to convince financial markets	-2
[illegible]	Spending cuts	0
[illegible]	VAT rise, cuts to curb unity pressures	-1.25
[illegible]	Fiscal shake-up for international credibility	-5.75
[illegible]	Fiscal restructuring	-0.25
[illegible]	Tightest budget for 10 years	-2
[illegible]	Draconian squeeze	-3.5
[illegible]	Painful cap on spending in recession	0

*[illegible]-adjusted contractionary effect of 1993 plans, expressed as a % of GDP

The World [illegible]

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Face to face: Danish Prime Minister Poul Schlüter (left) and Chancellor Helmut Kohl met yesterday in Bonn to try to bridge differences between their countries over the Maastricht treaty on European union

UK seeks support for curb on Brussels

By Peter Bruce and Patrick Blum in Lisbon

BRITAIN yesterday continued its intense diplomatic activities in advance of next week's European Community summit in Birmingham by trying to persuade sceptical governments in Portugal and Spain to relax their opposition to a weakening of the powers of the European Commission.

Mr Douglas Hurd, UK foreign secretary, met his Portuguese colleague, Mr Joao de Deus Pinheiro, in Lisbon yesterday afternoon before flying to Madrid to meet Mr Javier Solana, the new Spanish foreign minister.

Portugal, and, particularly, Spain, are worried that efforts by both the British and German governments to widen the application of the principle of "subsidiarity" – whereby the EC defers to member states in matters which can best be handled at national, regional or local level – constitutes an attack on the powers of Brussels.

A number of the smaller EC members, where support for further integration is deepest, look to the Commission to defend their interests. In addition the Commission is a staunch supporter of their claims for transfers of new cohesion funds.

Neither Mr Hurd nor Mr Deus Pinheiro would comment on the meeting in Lisbon. But Portugal's prime minister, Mr Anibal Cavaco Silva, said he had not yet seen a German proposal which calls for the Commission to demonstrate that the criteria for subsidiarity were being respected when it proposes legislation.

Spain is strongly opposed to any action which would limit the powers of the Commission although senior officials in Madrid have said that they would be prepared to consider an agreement on subsidiarity which allowed certain states to "opt out" of applying Commission regulations.

Bigger benefits for Efta states seen in European economic area plan

EC entry no match for EEA

By David Marsh
European Editor

THE European economic area (EEA) is likely to give Nordic and Alpine countries an economic boost of up to 5 per cent of gross domestic product if it comes into effect next year as planned.

According to an analysis published in London today by the Centre for Economic Policy Research, the economic gains for Sweden, Finland, Austria, Switzerland and Norway stemming from the free-market EEA will probably greatly outstrip the benefits accruing from EC membership later in the 1990s.

However, it believes the members of the European Free Trade Association (Efta) are likely to maintain their bid to join the EC, above all because of the political benefits of full membership.

The study says the economic gains from the EEA will come about particularly from the effects of greater competition in the Efta economies. This will lead to lower goods prices and more effective allocation of resources.

Additionally, through linking up with the EC's "single market", Efta states will benefit from additional capital investment which would otherwise have flowed to the Community. They would face an overall drop in economic welfare if the single market went ahead without them, the report points out.

Efta countries will face additional budgetary burdens from full EC membership later in the 1990s. Since average per capita income in Efta is about 40 per cent above the EC figure in nominal terms, the Efta states preparing for EC membership will all become net budgetary contributors. They will make an estimated total net annual contribution to EC coffers of around Ecu5bn (£3.9bn).

The report says the planned EEA agreement provides economic benefits to the Efta states without the "political baggage" stemming from full membership – which would imply adherence to the Maastricht treaty.

However, the Efta nations want to apply for full membership to win a role in the political development of the Community, as well as to participate in other areas of EC policies such as economic and monetary union and the common agricultural policy.

The study provides a gloomy assessment of the chances of EC accession by the former communist states of eastern and central Europe.

These countries will have to "stabilise their economies, rationalise their institutions and achieve several decades of above average economic growth" before they can think realistically of full membership.

Is Bigger Better? The Economics of EC Enlargement. CEPR. 25-28 Old Burlington St, London W1X 1LB. Tel 071-7349110.

Ireland digs in for long siege over punt

By Tim Coone in Dublin

THE Irish government appears to be digging in for a long siege, lasting months rather than weeks, in its defence of the punt and its membership of the Exchange Rate Mechanism.

Ireland's return to borrowing in the foreign currency market in the past week, and the launching on Tuesday of an I£50m "market development fund" to protect 30,000 manufacturing jobs put at risk as a result of sterling's free float outside the ERM, are signals that no one in government is about to unfurl the white flag of devaluation yet.

In announcing the fund on Tuesday, Mr Des O'Malley, the trade and commerce minister, said "We are hopeful that we will not have to increase the exchequer borrowing requirement as we have made savings this year. But we do need to assist those companies affected by the crisis".

The fund is to be disbursed over the next six months, at a rate of I£50 a week per job under threat, and is equivalent to approximately 20 per cent of the average industrial wage.

"We hope the problem will not be prolonged," Mr O'Malley said, adding that a review would be made in December.

Some European diplomats were yesterday questioning whether the measures amounted to state aids to industry and involved elements of market distortion in breach of EC competition rules. "It seems more like a market protection fund rather than a market development fund," said one.

Mr O'Malley said that he did not anticipate any problems with the package under EC competition law, "as we already have agreement with the EC for a market development fund. This will be an extension of it".

The success of the government's strategy will depend, however, on whether it will be possible to reduce interest rates within the next few weeks. Inflation is running at less than an annualised 3 per cent, but Dublin one-month interbank money market rates have shot up to over 17 per cent.

As one market analyst said yesterday: "If they continue for long at these levels, growth in the economy will come to a full stop".

By announcing last week that it intends to raise up to a total of I£500m in foreign currency to replace short-term Irish gilts, the government is signalling that a devaluation is not planned. The government's current foreign debt is close to I£9bn, two-thirds of which is denominated in D-Marks and Swiss francs.

Were Ireland to devalue to sterling's current level against the D-Mark, the government's annual debt service bill would increase by some I£70-100m, equivalent to a 1-1.5p in the pound increase in income tax - a move that would only be undertaken as a last resort.

Abortion referendum bound to be divisive

Even the Irish cabinet is in deep disagreement over the issue, reports **Tim Coone** from Dublin

THE IRISH government's decision to submit the country's constitutional ban on abortion to a referendum in December promises a stormy and divisive political debate over the next two months.

Deep disagreement over the issue is reflected at cabinet level, within the main political parties, and down to the family dinner table.

After six months of deliberation on the issue, the government announced on Tuesday that a referendum would be held on December 3. The electorate will be asked if they approve of the right of women to travel abroad for an abortion, if women should be entitled to obtain information on how to go about this, and whether abortion should be made available within Ireland under exceptional circumstances (this has been euphemistically termed the "substantive issue").

Within the cabinet Mr Des O'Malley, the leader of the Progressive Democrats, the junior partners in the coalition, warned earlier this week that the "substantive issue" should be dealt with by legislation and not a referendum, as it would be too politically divisive at a time when key decisions on Northern Ireland and the economy will also have to be taken.

The Northern Ireland round-table talks face a deadline of November 16 to come up with a new legislative framework for the province, and if any workable accommodation is to be reached with the Ulster Unionists this will inevitably require a commitment by the Irish government to drop the Republic's territorial claim. The claim is enshrined in the constitution and any change to it will trigger stiff opposition from hardline nationalists.

On the economic front, the government is facing an unprecedented jobs crisis, with unemployment at 21 per cent, exacerbated by sterling's recent devaluation, and is struggling to maintain the punt within the ERM. Devaluation would leave Ireland without an economic policy.

However, under pressure from the pro-life campaigners within his Fianna Fail party who want to air the abortion issue after a controversial Supreme Court ruling last March, Mr Albert Reynolds, the prime minister, decided to submit the idea of limited abortion in Ireland to a vote.

The Supreme Court ruling, in approving an abortion for a 14-year-old rape victim, in effect established the right to abortion in Ireland for women who face a threat to their lives, including the threat of suicide. But the country's top judges also concluded that where such a threat to the life of the mother does not exist, then pregnant women seeking an abortion abroad can legally be prevented from doing so.

The ruling deeply upset both the pro- and anti-abortion lobbies, forcing the government into a commitment last April that legislation and/or a referendum would be forthcoming by the end of the year.

The Catholic Church Bishops said in March: "Abortion has now been declared legal in Ireland. . .experience has shown that laws permitting abortion even in restricted circumstances rapidly lead to abortion on demand. A particularly urgent challenge now faces our legislators as they seek to exercise their responsibility to protect the lives of unborn children."

NEWS IN BRIEF

Moldova, Romania seek closer embrace

THE former Soviet republic of Moldova and its ethnically-close neighbour, Romania, are racing into a closer embrace, writes Chrystia Freeland in Moscow.

Senior officials from both sides yesterday agreed to set up a committee to co-ordinate the Moldovan and Romanian parliaments and agreed to consider an investment fund for Moldovan-Romania joint ventures to encourage economic integration.

This seem certain to anger ethnic Russians and Ukrainians who make up nearly 40 per cent of Moldova's population. Such fears were a trigger for bloody fighting this summer in the break-away Trans Dnestr region of Moldova.

Iliescu ahead in presidential race

Romania's fractious political groups appeared no closer to forming a governmental pact yesterday despite official confirmation of September 27's general election results, writes Virginia Marsh in Bucharest.

The election has produced a hung parliament where reform-minded parties are slightly outnumbered by more reactionary and nationalist groups.

No government is expected to emerge until after Sunday's presidential run-off. Mr Ion Iliescu, incumbent nationalist president, is firm favourite.

Gorbachev thorn in Yeltsin's side

Mr Mikhail Gorbachev, former president of the Soviet Union, yesterday lashed out at his successor and refused another summons to report to Russia's constitutional court, Chrystia Freeland reports.

Mr Gorbachev described himself as a "refusenik", in a reference to his refusal to testify on the issue of the illegality of the Communist party. The Russian government has placed a ban on him travelling abroad until he agrees to do so.

Denmark marks down growth

Denmark's economy ministry yesterday reduced its 1993 real GDP growth forecast to 1.9 per cent compared with a 2.5 per cent forecast made in August, Hilary Barnes reports from Copenhagen. A deteriorating export outlook was blamed.

The government has said it will ease fiscal policy in order to stimulate domestic demand and reduce the 11 per cent unemployment rate.

Asylum clash in Bonn coalition

Chancellor Helmut Kohl's liberal and conservative allies quarrelled yesterday over how to curb a wave of right-wing violence sweeping Germany, Reuter reports from Bonn. The liberal Free Democratic Party (FDP) protested against conservative calls for stiffer laws, believing existing laws strong enough to deal with an eruption of racist and anti-Semitic attacks.

In turn, Mr Kohl's allies in the Christian Social Union attacked the FDP for opposing moves to scrap Germany's generous political asylum law and halt an influx of refugees. Bonn announced plans to reassign 1,300 federal bureaucrats and 200 retired military officers to help process a backlog of 400,000 requests for asylum.

The Financial Times (Europe) Ltd. Published by The Financial Times (Europe) GmbH, Frankfurt Branch, Nibelungenplatz 3, 6000 Frankfurt-am-Main 1: Telephone 49 69 156850; Fax 49 69 5964481; Telex 416193. Represented by E. Hugo, Managing Director. Printer: DVM GmbH-Hürriyet International, 6078 Neu-Isenburg 4. Responsible editor: Richard Lambert, Financial Times, Number One Southwark Bridge, London SE1 9HL. The Financial Times Ltd, 1992.

Registered office: Number One, Southwark Bridge, London SE1 9HL. Company incorporated under the laws of England and Wales. Chairman: D.E.P. Palmer. Main shareholders: The Financial Times Limited, The Financial News Limited. Publishing director: J. Rolley, 168 Rue de Rivoli, 75044 Paris Cedex 01. Tel: (01) 4297 0621; Fax: (01) 4297 0629. Editor: Richard Lambert. Printer: SA Nord Eclair, 15/21 Rue de Caire, 59100 Roubaix Cedex 1. ISSN: ISSN 1148-2753. Commission Paritaire No 67808D.

Financial Times (Scandinavia) Vimmelskaftet 42A, DK-1161 Copenhagen-K, Denmark. Telephone (33) 13 44 41, Fax (33) 935335.

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Bosnian no-fly zone plan is agreed at UN

By Michael Littlejohns in New York

THE United States, Britain and France have approved the main outlines of a UN draft resolution to ban Serbian combat flights in Bosnia, but with no immediate provision for enforcement, diplomats said last night.

However, that could be the subject of a subsequent Security Council measure if the Serbs defy the ban.

Favouring a two-tier approach, Britain and France are known to fear that the use of allied fighter aircraft to enforce a no-fly order could place UN peacekeeping troops at serious risk as they escorted humanitarian aid convoys.

The UN force is soon to be greatly strengthened by the deployment of about 5,000 western European and Canadian soldiers.

The western proposal calls for UN monitoring of the no-fly order. Reconnaissance aircraft could be used for that purpose.

The question is expected to be taken up by the Security Council in a matter of days, perhaps even as early as tomorrow.

Diplomats appeared confident last night that Russia would go along with it and that China, while not supporting the draft, would not exercise its veto. The last time a permanent member invoked the veto was in 1990.

India and Zimbabwe are expected to abstain.

The draft resolution is the result of a US initiative following President George Bush's statement last Friday that Serbian raids showed "flagrant disregard for human life". Earlier, France had proposed UN action to bar Serbian combat flights in Bosnia.

The Serbs are believed to have at least 20 combat aircraft in the country. Cluster bombs have been used in attacks on Moslem and Croatian positions, violating an undertaking given at the recent London conference on Yugoslavia not to fly combat missions.

■ The US is expected to provide crucial intelligence and other support to the new UN forces due to be deployed to protect aid convoys in Bosnia, writes David White, Defence Correspondent.

It is anticipated that US officers will join a headquarters operation drawn largely from the existing structure of Nato's Germany-based Northern Army Group.

The main US contribution on the ground would be a field hospital, but it is thought Washington may also provide heavy airlift to help with the deployment.

The move is significant both for the US, in committing even limited numbers of military personnel, and for the UN, in extending the scope of peacekeeping operations to include intelligence-gathering. US participation is understood to have been sealed despite initial French reservations. The force will be commanded of France's General Philippe Morillon, with Britain providing the largest number of troops.

Serbian forces complete the jigsaw

Laura Silber reports on the significance of the capture of the town of Bosanski Brod

A Serb soldier with a captured flag in Bosanski Brod

THE FALL of the northern Bosnian town of Bosanski Brod to Serb fighters marks a serious setback for both Croat and Moslem forces in the region.

The victory, on Tuesday night, consolidated the hold of Bosnian Serbs over the former Yugoslav republic.

It has enabled them to widen the east-west corridor which they now occupy between Serbia in the east and Banja Luka, their military headquarters, in the north-west.

The military success also gives the Bosnian Serbs easier access to Serb-held territories in Croatia.

The battle was won in hand-to-hand fighting after Serb forces overran Bosanski Brod.

The bridge linking Bosanski Brod with Slavonski Brod, its Croatian twin city across the River Sava, was blown up, cutting off access to the town from the Croatian side.

Military police in Slavonski Brod said yesterday that about 10,000 civilians fled into Croatia in boats and barges, or across the bridge before it was mined.

The town's oil refinery was ablaze and the streets were reported to be littered with corpses.

Casualty reports have not been confirmed but most of the 34,000 civilian inhabitants of the town and surrounding villages had already fled.

Serb forces now control all but three towns in the Posavina, the rich land along the River Sava which marks the border between Bosnia and Croatia.

Moslems and Croats still have tentative control over Orasje, Gradacac and part of Brcko, north-eastern Bosnia.

However, it appears that it will be only a matter of days before Serb forces, which control about 70 per cent of Bosnia, defeat these isolated strongholds. Belgrade radio reported fierce clashes around Brcko yesterday.

Bosanski Brod was one of the first towns in Bosnia to erupt in violence at the end of March after Croats and Moslems in Bosnia voted for independence for the republic against the wishes of the Serb population, who boycotted the referendum. The Serbs wanted to stay within a Serb-controlled Yugoslavia.

Croatian forces initially had the upper hand in the area, but in July Mr Franjo Tudjman, the president of Croatia, ordered the withdrawal of Croatian army units from the town.

The order followed threats by the international community that United Nations sanctions would be imposed on Croatia for its role in the Bosnian war, diplomats say. (UN sanctions, including an oil embargo, were placed on the rump Yugoslavia on May 31).

Mr Tudjman has been criticised by many Croats for failing to support Croat and Moslem fighters in Bosanski Brod. Slavonski Brod is hit daily by grenades and mortars fired by Serb forces into neighbouring Croatia.

Posavina is a key region which before the war was inhabited by some 20 per cent of Bosnia's 750,000 Croats. The failure of the Croats to hold Bosanski Brod reflects the Croat leadership's preoccupation with Western Hercegovina, the sparsely populated but ethnically compact region declared by Croats as part of Herceg-Bosna, the self-proclaimed Croat state in Bosnia, a western diplomat said yesterday.

Mr Mate Boban, leader of the Croatian Democratic Union, the sister party of Croatia's ruling party, has had frequent contact with Mr Radovan Karadzic, the leader of Bosnian Serb forces, in an attempt to divide Bosnia between the two republics.

According to another western diplomat, the two leaders share a contempt for Moslems, who made up 44 per cent of Bosnia's pre-war population of 4.35m.

"Boban appears to believe he can strike a deal with Karadzic. But the Croats, more poorly armed, will end up losing," he said.

If Bosanski Brod was part of a deal between Croats and Serbs to divide Bosnia, it would appear Mr Boban has wildly miscalculated. It leaves Slavonski Brod and parts of Croatia vulnerable to Serb forces.

However, the Bosnian Serbs are unlikely to be able to maintain their grip over all the land they have captured in the former republic.

Belgrade radio yesterday reported fighting around Brcko and Bosanski Brod as well as in the eastern Bosnian towns of Zvornik and Bratunac, on the border with Serbia.

The occupation by Serb forces in certain areas could be tested by a guerrilla campaign which could be launched by Moslem and Croat soldiers anxious to improve their positions before winter.

El Al 'black box' under scrutiny

By Ronald van de Krol in Amsterdam and Paul Betts in London

ACCIDENT investigators yesterday recovered the "black box" flight recorder from the El Al Boeing 747 cargo jet which crashed into two Amsterdam housing blocks on Sunday, killing at least 250 people.

Dutch officials at first warned that the flight recorder, which has been flown to the Farnborough Accident Investigation Centre in the UK for decoding, was badly damaged but later Mr Henk Wolleswinkel, the chief crash investigator, said it looked in better shape than initial reports had led him to believe.

He said: "We're really crossing our fingers that we can get some useful information out of it." He noted, however, that the flight recorder had been battered and exposed to extreme heat.

Piecing together the cause of the crash is proving difficult. Search teams have so far not found the separate cockpit voice recorder, which could reveal the last conversations between the pilots.

Adding to the investigators' difficulties, only one of the engines has been found in a lake nine miles from the crash site.

This has raised the possibility that earlier reports that both starboard engines had broken loose were incorrect.

Officials say the two pieces of engine found so far now appear to be two halves of the same Pratt & Whitney engine. There was also no trace of fire.

Iceland finds enemy to replace Soviet N-subs

Robert Corzine reports on whaling's cold war

THE Russian nuclear attack submarines which used to roam the waters off Iceland during the cold war no longer pose a threat to the country's prosperous isolation. Most of the "floating Chernobyls", as they are known locally, lie rusting away in Russian ports, with only the occasional foray into the North Atlantic being picked up by Nato's surveillance system on the island.

But something sinister still lurks beneath the waves, according to the Icelandic government, and that is the Minke whale. Officials in the capital, Reykjavik, believe an estimated 100,000 of the mammals are eating their way through the dwindling stocks of cod in Iceland's 200-mile exclusive economic zone.

The fear of the Minke's impact on the country's dominant economic resource is such that Iceland walked out of the International Whaling Commission meeting in Glasgow in June, vowing to resume limited whaling next year.

"It would be a death warrant for Iceland unless we are allowed to continue as a hunting nation," says Mr Jon Baldvin Hannibalsson, the foreign minister. "We are prepared to fight for the principle of being able to use marine resources," although he acknowledges that the threat of retaliatory sanctions or consumer boycotts of Icelandic products is real, particularly in the US and Europe.

The pristine condition of the four whaling ships laid up in Reykjavik harbour may testify to the Icelanders' determination to resume the hunt for what their research suggests is not an endangered species. But the ships are old and likely to be the last of their line – new investment is reserved for modern freezer trawlers crammed with the latest in electronic gear, if not fish.

The sensitivity of a small country to what it perceives to be outside interference explains some of the government's defiance on the issue. But its hard line over whaling and the right to exploit marine resources may also mask deeper fears that the international concern over whales and other marine mammals could eventually be extended to large-scale fishing generally.

And that would call into question the economic viability of Iceland. The crisis in the fishing industry has caused a recession which is now in its fifth year, with the "steepest decline ahead", according to Mr Hannibalsson.

The stocks of cod, which account for 40 per cent of fish exports and which in turn represent 80 per cent of total exports, are close to collapse, according to the International Council for Exploration of the Seas. Last June it recommended a 40 per cent cut in Iceland's quota for 1993, a move which would have reduced sharply Iceland's foreign exchange earnings.

The government shied away from such a drastic cut, but two months ago it slashed the 1993 quota by 27 per cent. Although the fishing industry employs only 5 per cent of the workforce, it is the base upon which Iceland has built an enviable prosperity for its 250,000 citizens, who enjoy an average annual income per head of about $25,000.

Alternative export industries on the scale of the fishing sector are not readily apparent. The sharp decline in the cod catch in recent years prompted the government to promote fish farming, but the results have not been encouraging.

A proposal to exploit Iceland's hydroelectric potential by laying one of the world's longest cables across 950km of ocean to northern Scotland, where it could plug into the European grid, is technically feasible. But the associated dams and direct current link would cost more than £1bn and take 12-15 years to build. Plans by a Swedish, Dutch and American consortium to build a second aluminium smelter to join a Swiss-owned one already operating on the island are in abeyance because of uncertainty over demand for the metal. Other industries, including steel and chemical companies, might also be persuaded to build plants.

Some Icelanders, however, worry that more industrial schemes would hurt the country's reputation for having the most pollution-free environment in Europe. They fear it could also damage the growing tourism industry. "If this becomes a long-term decline then we could lose our best people," says Mr Hannibalsson. He points out that a third of the skilled work force has been educated abroad and that many could move relatively easily, especially to Europe.

Icelandic membership of the European Economic Area (EEA) – which Mr Hannibalsson says should be approved by the end of the year – could facilitate any exodus. But without the EEA Iceland "would be in danger of political isolation and of being excluded from European affairs", he says.

The government's enthusiasm for closer formal ties to Europe is strictly limited, however, and there is no sign that it will follow other Nordic countries towards full participation in the EC.

Iceland's centre-right government has proposed a 1993 draft budget that would cut state spending and hold down inflation, but opposition politicians yesterday branded the plan unrealistic, Reuter reports from Reykjavik.

Mr Fridrik Sophusson, the finance minister, said yesterday that expenditure would be reduced in real terms by 3 per cent from 1992.

"One of the main goals of the economic policy is to create conditions for growth; to get the wheels of the economy rolling again," he said.

Cuts for health, education and the government housing loan fund are proposed. Subsidies on farm products would be eliminated, though they will be partly replaced by direct payments to farmers.

Georgia battles worry Nato

NATO said yesterday it was deeply worried by the fighting in Georgia, amid signs that the west is growing pessimistic that former Soviet republics can overcome the problems and conflicts they face, Reuter reports from Brussels.

"We are deeply worried," said Mr Manfred Wörner, Nato secretary general.

"I think we have enough conflicts, crises and wars in the whole Euro-Atlantic area," he said. "We do not need more."

Georgia's embattled ruling State Council has sent its Foreign Minister Alexander Chikvaidze to Nato after asking the alliance in a letter to use "all possible means" to prevent the republic's break-up.

Mr Chikvaidze will visit the alliance today to discuss the conflict. Mr Wörner said Nato's 16 member-nations were trying to help find a peaceful solution to the fighting between government troops and Abkhazian separatists.

The alliance has so far refused to offer any of its former cold war enemies security guarantees or military assistance and prefers to leave the task of mediation to bodies such as the United Nations or the Conference on Security and Co-operation in Europe.

What worries Nato is not so much the fighting, but the possibility it could drag Russia into a war with Georgia and that the conflict would spread.

Georgia wants control over Russian military equipment on its territory to fight what it says is a Russian-inspired uprising. Moscow says it will defend its legitimate interests.

NEWS: BLUEPRINT FOR HONG KONG

Patten balances democracy and Chinese reality

By Simon Holberton in Hong Kong

WHEN Mr Chris Patten made his way to Hong Kong in early July he stopped over in Singapore to meet Mr Lee Kwan Yew, the island republic's senior minister.

"Mr Lee gave me one very good piece of advice," Mr Patten recalled later. "He said I should lay all my plans out and tell the Chinese what I intend to do in the next five years."

Yesterday Britain's 28th governor of Hong Kong was true to that advice. In a two-hour speech, opening the 1992-93 session of the Legislative Council, Mr Patten outlined in detail his proposals for the colony's social and political development in the years up to June 30, 1997, when Hong Kong reverts to Chinese sovereignty.

A good two-thirds of his address was devoted to underlining his commitment to social policy in Hong Kong – a place not associated with the values of the Nanny state or even One Nation Toryism. But the most significant part came at the end when he turned to constitutional development.

Mr Patten tried to steer a course between the democratic aspirations of the people of Hong Kong and the political realities of the colony's reversion to authoritarian China, in just under five years. As he expected, democrats in Hong Kong and the Chinese government were both negative in their initial response.

His proposals on the current state of constitutional affairs had been well telegraphed. He has split the Executive Council – his quasi cabinet – from the legislature, thereby shedding the conservative representatives appointed by his predecessor, Lord Wilson.

At the same time he has promised to appear before the legislature to answer its questions, pledged to give it financial and administrative autonomy and encouraged it to establish a system of parliamentary committees which can oversee and challenge the government on policy.

More controversial, however, are his proposals for the conduct of the 1995 elections. He revealed in his address that Mr Douglas Hurd, the UK foreign secretary, has formally raised with China the issue of allowing more democratically-elected seats in 1995.

He held out little hope for success in this. China has set its face against allowing more than 20 of the 60 seats to be contested by popular vote. Instead he produced a package which aims at maximum democracy within the constraint of the Basic Law, the colony's mini-constitution drafted by Beijing in the aftermath of the Tiananmen massacre of June 1989.

He proposes to have the 230 seats of Hong Kong district and urban councils elected democratically – at present a third are appointed. He further proposes that these 230 persons form an electoral college which will elect 10 members to the legislature in 1995.

In 1995, 30 representatives will be elected through the so called "functional" constituencies – small lobbies representing various business and professional sectors. Mr Patten proposed that for the existing 21 functional constituencies the franchise be widened.

He plans nine new functional constituencies to represent broad industry groups, such as electricity and gas. These would produce individual electorates of between 199,000 and 454,000 persons, totalling 2.5m potential voters.

None of Mr Patten's proposals violates the letter of the Basic Law and this allows him to present them as being in accord with that law.

"I think that the package I put forward hangs together. And I think it represents a useful but not extreme step forward in broadening participation in Hong Kong's affairs," he told the press. "Why have a great fuss now? Let us demonstrate that it can work. . .If China wants to change it back, then it won't lose anything in its own terms."

That quotation contains both the carrot and the stick of Mr Patten's strategy. What he seems likely to say to China is that his proposals are in China's best interests; that they will deliver to China a Hong Kong content with its political structures. But the last sentence indicates that he might just do it without approval.

Mr Patten did not only address constitutional matters. Some impressive spending commitments were made.

More will be spent on improving services to the elderly and the handicapped; more money also will be dedicated to income support, retraining, education, housing and the environment. Spending in these areas will rise by 31 per cent in real terms up to 1997; HK$8bn (£600m) more will be spent in 1996-97 than otherwise planned.

As for capital spending, HK$3bn will be put towards improving Hong Kong's sewerage system – in an attempt to clean up Victoria Harbour, one of the filthiest stretches of water in the world.

The funds to be deployed come from a windfall gain to the exchequer this year. Instead of a budget surplus in 1992-93 of HK$7.5bn the government now expects to have a surplus of HK$13.5bn. "Being that prudent would not be very sensible," Mr Patten observed yesterday.

Having addressed the concerns of social welfare, Mr Patten also attended to some business concerns. The announcement of a monetary authority will be well received. But it will be no Bundesbank: it will report to the financial secretary.

Mr Patten's creation of a Business Council should also be welcomed The first task he has set his this council is to advise him on competition policy.

In spite of Hong Kong's free-wheeling capitalist image, many companies depend for their existence on exclusive or duopolistic franchises awarded to them by the government; or operate in cartels, such as banking and food retailing. The Business Council's report will be eagerly awaited.

AGENDA FOR THE NEXT FIVE YEARS

Political

Immediate:

- Separation of the Executive Council (ExCo) from the Legislative Council (LegCo)
- Establishment of legislative committees to vet government business
- A monthly governor's question-time
- A new ExCo consisting of business and civic leaders

1995 Election Proposals:

- Lower voting age to 18
- Single-seat, single-vote constituencies
- Abolition of appointments to local councils
- Election committee to appoint 10 LegCo members from democratically elected local councillors
- Broadening franchise of functional constituency elections

Social and Economic

- Establishment of a Monetary Authority
- Business Council to advise Governor
- Commitment to low taxation and restraining public spending growth to below that of the economy
- Spending increases of: 20 per cent in real terms for university research and development projects over 1991/92 to 1994/95; around 16 per cent in real recurrent spending on education over next five years; 26 per cent in real recurrent spending on social welfare over next five years; 15 per cent in social security benefits, and their future indexation; 22 per cent in real recurrent spending on health care; HK$3bn towards sewerage system
- Abolition of capital punishment
- Review of freedom of information and press laws
- Citizens charter to make bureaucracy more accountable

China angry at lack of prior agreement

CHINA accused Hong Kong Governor Chris Patten of irresponsibility yesterday over his proposals for sweeping democratic changes to the colony in the last years of British rule, a Beijing-controlled news agency reported, Reuter reports from Hong Kong.

In its initial response, the China News Service (CNS) quoted a spokesman for the Hong Kong branch of the Xinhua news agency, as saying that any plans for political reform should be discussed with Beijing before being announced.

Xinhua is Beijing's de facto embassy in the colony.

Beijing is deeply suspicious of political reform in Hong Kong, especially after hundreds of thousands of Hong Kong citizens took to the streets to demonstrate against the 1989 Beijing massacre of student democracy protesters.

Earlier, Mr Patten disclosed proposals which would drastically increase the power of Hong Kong people to elect the colony's legislature, the Legislative Council (Legco) at the next elections in 1995.

Legislators elected in 1995 will win four-year terms, taking them well past Hong Kong's 1997 handover to China.

"As the 1995 election is related to a smooth transition [to Chinese rule], it should be discussed between both sides and a mutual agreement reached before it is announced," the spokesman said.

China had asked for this to happen but the British side had ignored this request, he said.

"It is very irresponsible and imprudent. The Chinese side will not be responsible for any arguments caused."

It was not clear in Hong Kong last night whether the Xinhau response was China's definitive view, or simply an initial reaction.

The Xinhua spokesman said the reforms could breach the 1984 Sino-British Joint Declaration, under which Britain agreed to return Hong Kong to China in 1997.

"If major changes to Hong Kong's political system are made during the transitional period, thus leading to a weakening of the executive-led administration, it is a breach of the Joint Declaration," the spokesman said.

Britain and China have agreed that under Hong Kong's system of limited democracy, the politicalsystem should be executive-led, withthe legislature having only limited powers.

China has implacably opposed British efforts to raise the number of directly-elected members and analysts say Mr Patten appears to be trying to boost Hong Kong democracy while still sticking to the letter of Chinese demands.

New institutions offered to keep growth on track

By David Dodwell, World Trade Editor

MR PATTEN'S economic plans embrace the icons of the past, but at the same time offer novel prescriptions – including commitments to tackle head-on the problems of monetary stability, inflation, and skills shortages.

He proposed creating a number of important institutions: a Governor's Business Council to advise "on how best we can sustain our economic growth"; a formal Monetary Authority to help in ensuring monetary stability; and an Efficiency Unit to enhance public sector efficiency.

Mr Patten talked optimistically of "a 'trade wind' that promises to sweep the region, creating in its wake an economic revolution as great as any seen in Europe or North America since the start of industrialisation".

"Hong Kong's position is strong; but it is not impregnable," he said, announcing plans to "mobilise the very best talent and experience that Hong Kong has to offer" to advise on maintaining future growth.

The Business Council will be mandated to advise on:

- how the territory might remains "the most business-friendly location in Asia";
- the impact of government policies on business;
- how to maximise the potential of Hong Kong's location and resources;
- promotion of trade and industry.

The assault on inflation, now in double figures and being driven by economic growth expected to average 5 per cent over the next five years, will focus on enhanced efficiency. This involves a commitment to prevent public spending from growing faster than the economy as a whole.

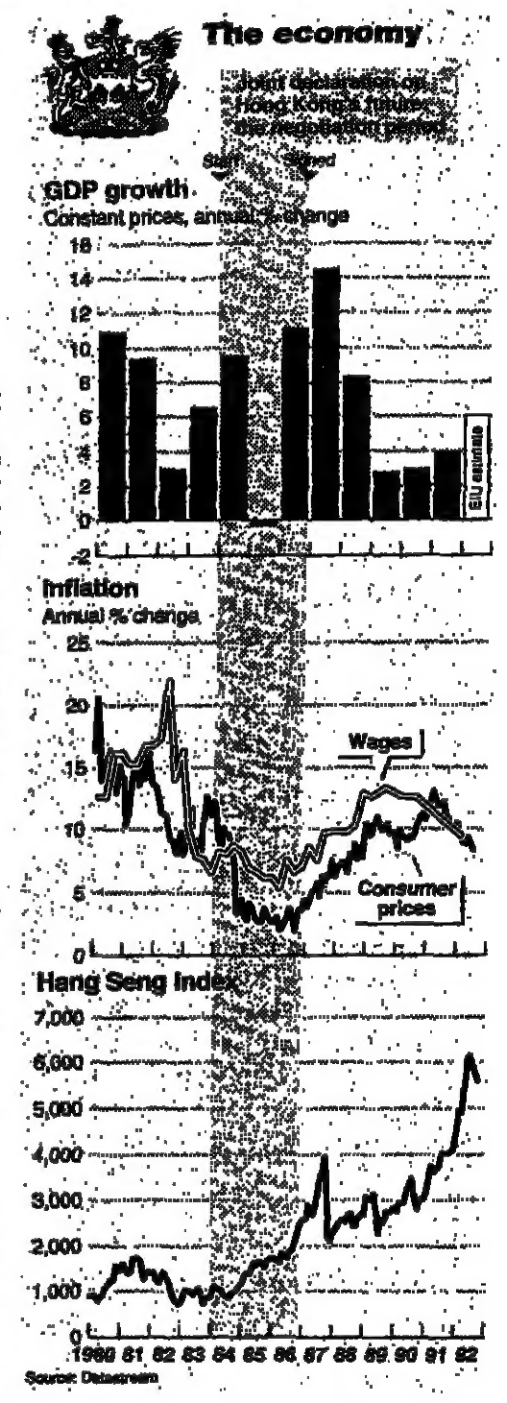
Control of inflation has been hampered by the need to retain the politically stabilising link between the Hong Kong dollar and the US dollar. It has been maintained at this level – despite sometimes-fierce pressure to revalue – because of the need to maintain confidence in the currency during any political turbulence in the run-up to the transfer of sovereignty to China in 1997.

Mr Patten repeated unequivocally that the exchange rate link "must and will remain". "The political risks of tampering with the link would be enormous," he said.

The Monetary Authority, brings together the Office of the Exchange Fund and the Banking Commission. He felt this would "enhance our ability to maintain monetary stability in the years to come".

In tackling labour and skills shortages, Mr Patten announced a Retraining Fund, endowed with HK$300m (£22.7m), but funded thereafter by levies on employers when they seek permission to import workers. This fund is expected to enable the government to retrain 15,000 workers over three years.

The government will also boost funding of the Research Grants Council from HK$122m this year to HK$180m in 1994-95.



Britain expresses determination to pursue proposals

By Robert Mauthner, Diplomatic Editor

THE governor of Hong Kong, Mr Chris Patten, said yesterday that he would discuss his proposals for greater democracy in the colony with the Chinese government, but that Beijing would not be allowed to veto his plan.

Mr Patten will have the first opportunity to sound out Chinese officials when he visits Beijing on October 21.

But the signs are that he will be given a rough ride.

China's official news agency Xinhua yesterday accused Mr Patten of being "irresponsible and imprudent" because he had not discussed his proposals with the Chinese authorities before announcing them.

That accusation was denied by the Foreign Office in London. Mr Douglas Hurd, the foreign secretary, had given his Chinese opposite number, Mr Qian Qichen, an outline of the proposals at their meeting in New York on September 20.

The Chinese interpretation of "consultations" is that only decisions with which they agree should be announced, a British official said.

In an interview with British television, Mr Patten said that his proposals reflected the legitimate aspirations of the people of Hong Kong for more democracy.

But he made clear that he had also taken into account the need for his plan to be consistent with China's Basic Law for the territory, the constitution which will come into effect after the hand-over of the colony to Beijing in 1997.

If Beijing objected to his proposals, he would "use such rhetorical gifts as I can manage to convince China that this is in Hong Kong's long-term interests and this is what the people of Hong Kong want."

British officials stressed that the UK government would back Mr Patten's pledge to try to persuade Beijing to accept a quickening of the pace of Hong Kong's democratic development, with the specific aim of increasing the number of directly-elected seats to the colony's Legislative Council (Legco).

According to present plans, these seats are due to rise from 18 to 20 in 1995 out of a total of 60 Legco seats.

The officials recognised that any increase in the number of directly-elected seats would require a change in the Basic Law and that there was little or no chance that Beijing would agree to such a modification.

Mr Hurd's proposal to increase the number of directly-elected seats was rejected by Qian Qichen at their New York meeting.

But the Foreign Office emphasises that greater democracy could also be achieved by other means, notably through Mr Patten's ingenious proposal to increase the number of functional constituencies for indirectly elected seats and to extend them to include the entire working population.

'Not far enough' say colony's liberals

By Our Foreign Staff

MR Patten's proposals for democratic reform angered the colony's liberals who argued the changes did not go far enough.

Liberals were particularly angered by Mr Patten's announcement that the colony's quasi cabinet, the Executive Council, would be closed to all party politicians and that the executive and legislative councils would be split.

Mr Martin Lee, Hong Kong's prominent democracy activist, said splitting the councils was "the easy way out for the British government. It is a retrograde step."

"What he should have done was do the right and honourable thing by giving us full democracy now and using the next four-and-a-half years to convince China. Poll after poll shows that the people want democracy although they know China would not approve.

Professor Peter Harris, a political scientist at the colony's university, explaining the negative reaction to Mr Patten's proposals said: "The constitutional changes are going to hit a lot of people who had a lot of power in this town for a long time. They're going to lose a lot of face."

However, business analysts welcomed Mr Patten's blueprint – but said investors should wait to see the extent of China's anger before loosening their purse strings.

"The mood in the trading room was very relaxed after the speech," said Mr Howard Gorges, managing director of South China Securities.

Mr Paul Cheng, Chairman of the Chamber of Commerce welcomed the framework of an executive-led "yet more accountable government."

He also said the chamber applauded the governor's Business Council, "which provides an opportunity for a direct dialogue and close co-operation between the business community and the governor."

Governor's show: Hong Kong residents at a TV showroom yesterday watch Chris Patten's policy speech on his plans for the colony

ExCo nominees well received

By Simon Holberton

MR Chris Patten, Hong Kong's governor, yesterday reshuffled his Executive Council (ExCo) appointing leading lawyers and academics while retaining most of the non-politicians appointed by his predecessor Lord Wilson.

He broke with 150 years of tradition by not including the commander of British forces, Sir John Foley.

His appointments were mostly well received. Two distinguished barristers were named, Mr Denis Chang and Mr Andrew Li. Mr Li shares chambers with Mr Martin Lee, leader of the United Democrats.

Both are opponents of the agreement reached between Britain and China last year on the colony's Court of Final Appeal. Mr Patten would not be drawn yesterday on the significance of their appointment, but indicated he might revisit the issue of the court. "I look forward to discussing the Court of Final Appeal with my new Executive Council."

Mr Patten also appointed one of the 44 Hong Kong citizens named by China to advise Beijing on Hong Kong affairs. Mr Tung Chee-hwa, 54, is a director of Orient Overseas Container Line and a former member of the Basic Law Consultative Committee which advised Beijing on the drafting of the colony's post-1997 constitution.

As expected Mr Patten retained the services of Mr William Purves, chairman of HSBC Holdings, and Baroness Lydia Dunne. Baroness Dunne's use to Mr Patten goes further than just Hong Kong. Her seat in the British House of Lords may be useful to him.

هكذا عنه بالأصل

India to sell off stakes in leading state companies

By Shiraz Sidhva in New Delhi

THE Indian government said yesterday it would go ahead with the sale of shares in eight state companies on October 14. The sale, through open auction, is the second phase of a privatisation programme which is expected to raise Rs35bn (£730m).

The eight companies involved include some of India's best performing government-owned enterprises – the Steel Authority of India, Hindustan Petroleum Corporation (formerly Esso Eastern) Bharat Petroleum (earlier Burmah Shell) and the high-precision machine tools manufacturer, Hindustan Machine Tools.

Shares in 31 state enterprises were sold last year, in the first phase of Indian privatisation.

According to Mr Suresh Kumar, an official in the Industries ministry, shares in 12 more state enterprises will be sold in this financial year (ending March 1993).

The open auction system will ensure a more transparent and broad-based method of privatisation, say officials. While last year, the government offered random blocks of shares to mutual funds, this year, individual company shares will be auctioned. The government has stipulated that each share application should not be less than Rs25m (£520,000) for the current tranche.

The government is selling 5 per cent of the total paid-up capital of the eight public enterprises, totalling Rs400m, to companies, financial institutions and individuals, through sealed tenders to be opened on October 14. The face-value of each share is Rs10.

The sale, officials say, is being implemented in a phased manner, in view of the size of India's capital market relative to the assets of the public sector. Market circles maintain that the government extended the date of the auction from October 6 to October 14 fearing an inadequate response.

In the expectation of the introduction of direct public offers soon, individual investors are unlikely to make bids at the current auction. The minimum amount of Rs25m to be offered is also too high for individuals, stockbrokers and private sector financial companies, say market sources. The cautious approach towards buying is also related to the fact that the investors do not expect high profits for their investments, at least in the short run.

An indication of the poor response is that certain public sector shares already on the market have plummetted in the last week. For instance, shares of Hindustan Petroleum fell from Rs1,200 to Rs650 this week, those of Bharat Petroleum fell from Rs1,275 to Rs750, and Steel Authority of India shares slipped to Rs65, from Rs85.

When the government first decided to mobilise resources through privatisation in July 1991, they envisaged privatising loss-making companies, which were a drain on the central budget.

However, the government was forced to offer some of its most profitable enterprises because it feared there would be no takers for loss-making concerns, and that the fiscal adjustment programme required by the International Monetary Fund would be in danger. The response to the current phase of privatisation will help set the tone for the next round in November.

The overall privatisation programme, announced last year, will take place over at least 10 years. The government is committed to selling up to 49 per cent of all state companies, with the government keeping a controlling share.

Savimbi invited to join coalition

By Julian Ozanne in Luanda

ANGOLA'S MPLA government, victors in the country's first free elections, yesterday invited Unita, the former rebel movement, to join a government of national unity if it accepted electoral defeat.

The conciliatory move came as the UN Security Council agreed to send an ad hoc committee to Angola to join international efforts to shore up Angola's peace process which is threatened by Unita's claims of election fraud.

The government offer, made by Mr Pedro Van Dunem, Angola's foreign minister, was welcomed by international observers in Luanda who are searching for a compromise to keep Unita, the former US- and South African-backed guerrilla group, in the peace process and avoid plunging the country back into violence.

In Luanda, Unita stepped back from the brink by agreeing to take part in four commissions of inquiry investigating allegations of fraud. They also agreed to accept arbitration by the United Nations verification mission, which is sitting on all four committees. As a concession to Unita, the announcement of final election results has been postponed to next week when the investigation is complete. Official returns with more than 90 per cent of the vote counted show President Eduardo dos Santos of the ruling MPLA government leading his arch-rival Mr Jonas Savimbi, the Unita leader, by 50.8 per cent to 38.8 per cent.

Savimbi: in isolation

Western observers say the future of Angola's peace process rests upon the erratic Mr Savimbi who remained in isolation yesterday in the hilltop Luanda suburb of Miramar refusing to meet the MPLA and international observers, including South Africans.

The South African Trade Mission in Luanda refused to confirm reports that Mr Pik Botha, South African foreign minister, had postponed a trip to Luanda yesterday because Mr Savimbi was unavailable.

Efforts were under way yesterday to prepare a compromise acceptable to Mr Savimbi. Among proposals being discussed were a second round of presidential elections between Mr Savimbi and Mr dos Santos, a government of national unity with genuine national and provincial power sharing arrangements and an interim administration of both parties.

"Although the MPLA has won the elections Savimbi has shown he has a vast following throughout the country and especially in the important central provinces of Bie, Huambo and Benguela," said a diplomat. "No party can rule Angola without the other especially given the challenge of economic reconstruction. A way has to be found to keep Unita on board and that means finding a place for Savimbi because Savimbi is the problem and the way he rules Unita means that Unita can't accept anything which doesn't please the Boss."

Senior Unita officials also suggested that a compromise could be worked out. "Any solution must avoid outright victory for one side and humiliation for the other," said Mr Jardo Muekalia.

CARETAKER PM TO OVERSEE KOREAN ELECTION

By John Burton in Seoul

SOUTH Korea's President Roh Tae-woo yesterday picked a university president to head a neutral cabinet that will preside over December's presidential election.

The opposition parties welcomed the choice of Mr Hyun Soong-jong, 73, (pictured above) a law professor and president of Hallym University.

President Roh last month promised the appointment of a neutral caretaker cabinet to persuade the opposition to end its three-month boycott of the National Assembly.

The two opposition parties wanted guarantees that the government would not use its agencies to influence the presidential election in favour of the ruling Democratic Liberal party. This followed allegations of government interference in the March parliamentary election. The National Assembly resumed work on Monday.

New non-partisan ministers for the politically sensitive posts of justice, home, information, political affairs and possibly the intelligence agency will be announced tomorrow.

The rest of the cabinet, including the economic ministries, will remain unchanged.

Taiwan prosecutor questions executive

THE chairman of a Taiwanese company at the centre of the island's biggest shares scandal has denied charges of manipulating stocks and has been allowed bail, Reuter reports from Taipei.

Taipei's chief prosecutor Chuang Chun-shan freed Mr Peter Hsu, chairman of the Formosan Rubber Group, on bail of T$1m (£22,471) after questioning.

Mr Hsu, who had been sought by agents of the Bureau of Investigation, voluntarily appeared before the prosecutor. He denied collaborating with detained leading stock market player Mr Lei Po-lung to manipulate the price of shares of Formosan Rubber.

Meanwhile, Taiwan's Securities and Exchange Commission has recommended that 21 people be charged with stock manipulation. Mr Chuang said he would summon the suspects for questioning before deciding whether to charge them.

He did not name any of them, but said they were individual investors. If found guilty they could face seven years in prison.

The 21 allegedly manipulated the price of shares in Formosan Rubber, which is at the centre of a scandal surrounding defaults on payments for T$9bn stock purchases.

The price of Formosan Rubber's shares soared to T$370 per share in September from T$68.50 in May. It closed at T$89.50 yesterday.

A leading stock market player and a board member of Formosan Rubber are in custody on similar charges.

Mr Lei Po-lung, one of four shadowy "Big Hands" who often determine the fortunes of the volatile and speculative market, was detained on September 20 for alleged involvement in a string of stock payment defaults that sent the bourse plunging last month.

Mr Alex Hsu, a member of the board of directors of Formosan Rubber Group, has been detained for allegedly collaborating with Mr Lei to prop up the price of the company's shares.

NEWS IN BRIEF

Ethiopia reforms 'depend on aid'

ETHIOPIA'S central bank governor Mr Leikun Berhanu appealed yesterday for urgent foreign aid to help the country cope with economic reforms and the legacy of Marxist rule and civil war, Reuter reports from Addis Ababa.

"Timely and adequate financial support from multilateral and other donors is very critical if the reform package is to succeed," Mr Leikun said. The reforms would shortly include introducing higher interest rates.

Borrowing rates would no longer favour farmers' collectives, which paid 4.5 per cent compared to 9 per cent for businessmen. Rates will still be set by the central bank.

Ethiopian businessmen would be allowed to establish banks and insurance companies. The finance sector would remain closed to foreign investors for the time being.

Israeli troops fire on demonstrators

Israeli soldiers shot and wounded at least 78 Palestinians in the occupied Gaza Strip yesterday during marches in support of a prisoner hunger strike, Reuter reports from Rafah, Gaza Strip.

Soldiers fired live ammunition, plastic bullets and tear gas to disperse several thousand demonstrators outside the Red Cross headquarters in Rafah refugee camp. Palestinians threw stones and fire bombs. The clashes were the fiercest in the Strip in five months.

The protests were to back an 11-day-old hunger strike by Arab prisoners demanding better treatment.

Iraqis in attack on Kuwaiti post

Iraqis attacked a Kuwaiti border post on Tuesday, wounding Kuwaiti security men, Reuter reports from Kuwait City.

The Kuwaiti interior ministry said guards at the Bahra Hoshan post and reinforcements repulsed the attack.

We are hostages, say Lebanon's Christians

Lara Marlowe on despair at the continued role of Syria as Maronite leadership bickers and splinters

A NEW poster covers the walls of the Maronite Christian Phalange party headquarters near Beirut port. "Freedom kidnapped – Lebanon hostage," it says.

Dollops of red ink fall from the arrow-pierced heart of a dove of peace. Prison bars are superimposed over a map of Lebanon and upon a photograph of Mr Boutros Khawand, a party official kidnapped on September 15.

Mr Khawand's colleagues say they do not know who is holding the Phalangist central committee member, but the poster's message is simple enough: Syria, which maintains 40,000 troops in Lebanon, has "kidnapped" the country.

While a majority of Lebanese have learned, however grudgingly, to live with the Syrian presence, a hard core of Maronites continues to reject the influence of Damascus as their leadership bickers and splinters in the aftermath of parliamentary elections.

"Lebanese Christians have never been so full of despair," Mr Issa Goraieb, editor-in-chief of Beirut's L'orient le Jour newspaper, says. "It started with the inter-Christian war in 1990. It's been downhill ever since."

Five of the 128 parliamentary seats remain to be filled in a special by-election in the strongly Maronite Kesrouan region on October 11. The August 30 poll was postponed when all candidates in the region agreed to boycott the vote. But 22 candidates have now registered for the by-election – and their change of heart has plunged Maronite leaders into an unseemly bout of mud-slinging.

The candidates include Mr Fares Boueiz, who resigned as foreign minister in August in protest at the holding of the original elections.

Mr Boueiz explains the reversal of his decision by claiming that the Maronites are "committing political suicide" and that Kesrouan cannot be turned over to "outsiders". He condemns the Christian leaders most vehemently opposed to the elections – ex-president Amin Gemayel, Raymond Edde, Dory Chamoun and former rebel General Michel Aoun - for "mixing opposition and tourism" by living in France.

From Paris Mr Edde brands Mr Boueiz "a [Syrian] agent".

Gen Aoun yet again broke his promise to the French to refrain from political statements, demanding that all Lebanese politicians resign from public office.

The general, who has a wide but inactive following in Lebanon, will not be allowed to return from his exile in Marseilles until 1995.

Phalange party President George Saade, who resigned as minister of post and telecommunications, also in protest at the elections, now says that he too regrets the boycott.

> Many Christian politicians regret the poll boycott which they now see as political suicide

There will be 64 Christians in the new parliament which will convene for the first time on October 16. But, says Mr Saade, "not all Christians represent Christianity".

"The Syrian Socialist Nationalist Party (SSNP) has many Maronites. They won nine seats in parliament – they took over our seats. Hizbollah won in Beirut because the Christians didn't participate."

Social changes in Lebanon since the last 1972 poll are reflected in the new legislature: two of the women deputies were among the highest vote winners in the country.

The presence, for the first time, of 12 Islamic fundamentalists in the parliament puts the Lebanese government in the awkward position of officially negotiating with Israel even as the Iranian-backed Hizbollah, who hold eight parliamentary seats, continue their almost daily attacks on Israeli troops in southern Lebanon.

Perhaps the most pressing question which will face the cabinet, likely to be formed next month, is the status of the almost half a million Palestinian refugees in Lebanon. Neither the Palestine Liberation Organisation nor Lebanese politicians want to give the refugees Lebanese nationality.

The PLO believes this would in effect relinquish their right of return to what is now Israel. The Lebanese fear that making citizens of the mainly Sunni Moslem Palestinian community would upset the country's sectarian balance by making the Sunnis the largest minority in the country.

Many Lebanese suspect that the US wants the Palestinians to stay in Lebanon as part of a final Middle East peace package. But they also credit US pressure on Damascus for the expected withdrawal of Syrian troops from Beirut before the end of the year.

Syria has already begun removing heavy weapons from the capital to the Bekaa valley, a redeployment which is improving Lebanese morale, especially among the Maronites. But Syria's influence over the Beirut government – and its military presence in the north and east of the country – will remain for years.

Although it dictates Lebanese security and foreign policy, Damascus has largely refrained from intervening in the Lebanese economy. Three World Bank and International Monetary Fund delegations will visit Beirut this autumn, and Lebanese officials hope their findings will generate more than the $150m World Bank emergency loan already granted for water, electricity and telecommunications.

The Lebanese pound has lost nearly two-thirds of its value this year. Yet the bread riots which brought down prime minister Omar Karami's government in May seem a distant memory. Those riots were triggered when the Lebanese pound fell to 2,000 to the dollar. The exchange rate is now 2,473 to the dollar and the trade unions are all but silent. Outrage at Lebanon's impoverishment has given way to stoic resignation.

Clinton flares up under fire on TV and keeps his big lead in the polls

By Jurek Martin, US Editor, in Washington

GOVERNOR *Bill Clinton* showed his temper yesterday. He was undoubtedly provoked, *his* anger did not last long, and the display of it won him a round of applause.

However, with all political *attention in the US* zeroing in on the first of the televised debates by the main candidates, due next Sunday, any variant in the confident mood *of the* front-runner in the presidential election assumes disproportionate significance.

President George Bush's supporters are beginning to hope *that a seam of* weakness might have been discovered in their Democratic opponent at last.

Mr Clinton had been pressed by Mr Phil Donahue, the TV *talk show host,* on the latest Republican attempts to discredit his character.

These are mostly disseminated, without substantiation, by *the ultra-conservative* Washington Times newspaper, and are that Mr Clinton attended several meetings, in the US and Europe, of the anti-Vietnam war movement more than 20 years ago, that he once considered renouncing his US citizenship and, most darkly, the implication that he might have been suborned during a visit to the communist Soviet *Union and Czechoslovakia* early in 1970.

Mr Donahue said it was clear Mr Clinton had been "more active" in the anti-war movement *than he had previously* let on, and that "we are right to ask these questions because we wonder what kind of leadership you would bring to the Oval Office."

"You are wrong to ignore my entire public life," Mr Clinton brusquely responded, "which you and a lot of other people *have done, and to make* up your own characterisation on this so that you can once again divert people from a discussion of the things that will affect their lives." *The studio audi*ence, sympathetic to Mr Clinton, erupted in cheering.

The incident is probably trivial in itself and did the Democratic *candidate no immediate* harm. But it may serve as a sort of trailer for the debates themselves and the extent to which Mr Bush will seek to *change the subject from the* state of the national economy to his opponent's character.

Mr Clinton has shown testiness before in the long campaign – *as has Mr Bush.* Mr Ross Perot, the third presidential candidate at the debating table, is permanently testy under questioning. The independent from Texas prefers, as he did in his first paid TV commercial on Tuesday night, to lecture audiences on what is wrong with the country.

More polls yesterday confirmed the impression that *only a radical change of mind* by the electorate, which could be induced by some egregious mistake in the debates, can stop him winning the presidency.

A national opinion survey for The Los Angeles Times has given him 48 per cent, Mr Bush 34 per cent and Mr Perot nine per cent, while the *latest* NBC poll's split was 46:32:10.

Among new state polls, Mr Clinton was 20 percentage points ahead in California, 18 in Pennsylvania, 16 in New Jersey, and 13 in North Carolina.

The Bush campaign seems to have written off California but the other three states are very important if the president is to be re-elected.

Governor Bill Clinton, struggling with a sore throat, speaks to a presidential campaign rally at Nashville, Tennessee, after being questioned closely on a TV programme about his anti-war *activities in the 1960s. The Democratic candidate counter-attacked sharply and won applause*

CIA gave wrong data on Iraq loans

By Alan Friedman in New York

THE Central Intelligence Agency (CIA), in an unusual public *statement* on *intelligence* matters, has admitted that it provided the US Justice Department and federal prosecutors with incorrect information about illegal loans to *Iraq,* made by the Atlanta branch of Italy's Banca Nazionale del Lavoro (BNL).

While denying it had made any effort to cover up knowledge of the BNL affair, the CIA admitted that its response to a prosecutor's request for information on the alleged involvement of BNL's Rome head office in the Atlanta scandal was "incomplete".

Two weeks ago, the Justice Department made public a September 17 letter from the CIA which claimed its only knowledge *of Rome's awareness of* the Iraqi loans came from "publicly available information." This, however, was soon contradicted by other CIA reports.

The issue of CIA knowledge of the illegal Iraqi loans is at the heart of the BNL case since the Bush administration has argued in court that the entire $5bn loan operation – of vital importance to Iraqi President Saddam Hussein's nuclear, chemical and missile projects – was single-handedly organised by BNL's former Atlanta manager.

Immediately after the CIA claim was made, however, a firestorm of criticism was directed by Congressional leaders at *Mr Robert Gates, CIA* director. He was accused of having provided misleading information, since classified CIA reports sent to Congress explicitly stated that the CIA had independently confirmed press reports that "more senior BNL officials in Rome" knew of BNL Atlanta's activities, and that some Iraqi loans had even been approved in Rome.

The CIA's knowledge is also relevant since a federal judge said in Atlanta last week he did not believe the US government's case. He ordered a full BNL trial of the former Atlanta manager. The judge also said CIA *documents he had* received provided "definite" proof of Rome's involvement.

Judge Marvin Shoob also demanded that a special prosecutor investigate the BNL case, a call that was also made by Mr Bill Clinton, the Democratic presidential candidate.

Other documents released in Atlanta included a memo from one prosecutor who was worried *he might have* accidentally stumbled onto a CIA covert operation to arm Iraq by using BNL loans.

Mr Mark Mansfield, CIA spokesman, yesterday said there was no intention to mislead anyone or to hold anything back. "It was the result of an honest mistake and a record system that is somewhat less than perfect," he said.

Mr Mansfield added that Mr Gates had requested the CIA inspector-general to conduct a review of the BNL issue and to report back by the end of the year.

Wide backing for foes of Canada's new constitution

By Bernard Simon in Toronto

OPPONENTS of Canada's proposed new constitution have *opened up a wide* lead in several key provinces, less than three weeks before a national referendum on the constitutional package.

A *Gallup poll published* yesterday shows the No side is backed by 53 per cent of decided voters in British Columbia, 51 per cent in the three prairie provinces and 46 per cent in Quebec. Support for the deal in these regions is estimated at between 30 and 36 per cent.

Doubts about the outcome of the October 26 referendum have already driven up domestic interest rates and elicited warnings of further economic turbulence. Mr Ted Newall, chief executive of Nova Corporation *of Alberta, one of the* country's biggest energy and pipeline companies, warned on Tuesday night that a No vote would, at best, mean 5-15 years of economic and *political* uncertainty.

The constitutional package, known as the Charlottetown Agreement, is supported by all three national parties, the leaders of all 10 provinces, and the bulk of Canada's business community.

They have been put on the defensive, however, by having to acknowledge that the agree*ment is a compromise which* gives no region or interest group everything it wants.

Critics of the deal, the most vociferous of whom include Quebec separatists, western Canadian regional groups and women's activists, have had the advantage of being able to highlight the agreement's weaknesses.

Quebec separatists, for instance, have emphasised how few new powers will be transferred to the francophone province under the deal. The Alberta-based *Reform Party,* on the other hand, has touched a sensitive nerve in western Canada by pointing to a provision which guarantees Quebec a *minimum of 25 per cent of the* seats in the House of Commons.

In addition, many voters are using the referendum debate to vent a *wider range of frustra*tions with the political process.

The Yes side, which was slow to put its campaign into gear, still expects to make up ground over the next few weeks. It is taking some com*fort from the high proportion* of undecided voters – 22 per cent in Quebec and 17 per cent in British Columbia.

The legal text of the Charlot*tetown Agreement is due to be* published next Monday, dealing with complaints that voters have not been able to assess the fine print of the deal. Critics are expected to scour the text in search of new ammunition for their arguments.

Three main parties spurn Peru election

By Sally Bowen in Lima

REGISTRATION for Peru's congressional elections will close at midnight tonight, three prominent parties having decided not to field candidates. Peruvians will vote on November 22 for a new, 80-member "democratic constituent congress".

President Alberto Fujimori is hoping for a majority so as to continue economic liberalisa*tion and structural* reform. Also, the resumption of much-needed international financial assistance to Peru, frozen since the president dissolved the previous Congress and suspended the constitution on April 5, depends on a return to democracy.

The parties not fielding candidates argue that the new Congress, charged with writing *a new constitution,* already has its hands tied by Mr Fujimori. Opposition to the his regime by former presidents Fernando Belaúnde and Alan García has ensured that their parties, Popular Action and Apra respectively, will not run.

The right-wing Freedom movement of Mr Mario Vargas Llosa, defeated by Mr Fujimori in the last presidentiual election, *has also refused to partic*ipate.

Up to a dozen groups, many of them newcomers to Peruvian politics, could meet the deadline tonight.

Parties which failed to gain at least five per cent of the popular vote in the 1990 elec*tions, and so do not qualify* for registration, have had to collect signatures from at least 100,000 backers.

Early opinion polls indicate that Mr Fujimori's Change 90 party, with New Majority, headed by *former mining min*ister Mr Jaime Yoshiyama, will sweep the board, but the volatility of the electorate means nothing can be taken for granted.

International observers appointed by the Organisation of American States are to start arriving in Lima today to monitor the electoral process.

MR Abimael Guzmán, founder-leader of the Shining Path guerrilla movement has been found guilty of treason after a 10-day *summary trial* by a closed court martial. He now faces a life sentence.

He can appeal to a "war council" and, if his conviction is upheld there, to *Peru's* Supreme Military Court. Presi*dent Alberto Fujimori has* announced that the appeals procedure has been accelerated, with both stages to be completed within five days.

Radio reports said that suspected Shining Path guerrillas had killed *six* members of Peru's security forces in an apparent reaction to the expected life sentence.

Observers declare poll in Guyana free and fair

INDEPENDENT observers, including US former president Jimmy Carter, yesterday declared elections in Guyana, held on Monday, free and fair, *our Foreign Staff* reports.

The count continued to suggest a strong lead for the opposition People's Progressive Party of Mr Cheddi Jagan, a former Marxist who now advocates market economics.

Results from 607 of the 996 polling places gave his party 57.4 per cent of the vote, and 38.7 per cent for the People's National Congress of President Desmond Hoyte, whose backers alleged voting irregularities. The remainder was divided among nine small parties.

The poll was marked by *looting and racially*-charged riots involving black supporters of the president and Mr Jagan's mostly East Indian backers, among Guyana's 750,000 people.

Brazilian call for ministry

By Stephen Fidler, Latin America Editor

BRAZIL'S former privatisation chief said yesterday his country *needed a privatisation min*ister to speed up the selling of state-owned companies.

Mr Eduardo Modiano, who resigned last week as head of *the National Development* Bank after the change of government in Brazil, told a Financial Times conference that only a minister would have the necessary influence to push through the necessary restructuring of companies to prepare *them for* privatisation.

Mr Modiano, who reported to the economy minister while in office, said delays had ensued from the slowness of some *restructurings.*

He favoured a Mexican-style process by which companies, once up for sale, would be transferred to the privatisation ministry, which would then carry out necessary restructuring.

He told the conference, on privatisation in Latin America, that *he expected* the new Brazilian government of interim president Itamar Franco to continue the privatisation schedule for the next few *months.*

Thirteen companies are for sale before the end of January, with a total 33,355 employees and a total minimum price *equivalent to $2.68bn, payable* in government debt. This would double the combined size of the companies privatised so far.

He expected that two steel companies would provide the *greatest test* for the programme: Acesita, based in Minas Gerais, with 8,000 employees and a $352m minimum price, due for auction on *October 22;* and CSN, a $1.45bn company with 18,000 employees, based in Rio de Janeiro state.

In Argentina, the government has plans to float 40 companies by the end of 1993, Mr Juan Carlos Sánchez Arnau, under-secretary for privatisation, told the conference.

Afterwards, he acknowledged flaws in the sale to the public this year of *Telecom,* one of the country's two privatised telephone companies.

The shares have fallen sharply from the offer price, possibly damaging the appetite of individual investors for *future* privatisations. Part of the problem was that many investors took 100 per cent financing from banks to buy the shares, then were in trouble after the share price collapsed.

He said the Dutch auction system used to price the shares had resulted in too high a price, which was further inflated by allowing banks to finance the purchases. "It won't happen again," he said.

FT PRIVATISATION IN LATIN AMERICA

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Deadlock on Gatt may be broken soon

By Lionel Barber in Brussels

DESPITE intense efforts to lower hopes before this weekend's EC-US talks on a Gatt *trade agreement, officials in* Brussels said yesterday the meetings represent the best shot at a breakthrough in recent memory.

But the same EC officials cautioned that narrowing differences on the outstanding issues in agriculture, services and market access remained fraught with difficulty.

Concern exists, too, on how to present a potential breakthrough in public. A premature declaration of victory by a beleaguered President Bush or an over-eager UK Presidency of the EC could generate a backlash, either among the Democratic majority in Congress or in Paris, where the French government has warned of the risks of a Gatt "sell-out".

The talks, starting in Brussels on Sunday, are surrounded by extraordinary secrecy. The European Commission could not reveal yesterday where they will be held, nor how long they will last, only that they may stretch into Monday.

Involved are Mr Frans Andriessen, EC external affairs commissioner, Mrs Carla Hills, US trade representative, Mr Ray MacSharry, EC farm commissioner, and Mr Ed Madigan, US agriculture secretary.

The biggest obstacles on agriculture are how far payments to EC farmers in compensation for big price cuts agreed in the recent Common *Agricultural Policy* reform should be exempt from progressive cuts under the Uruguay Round "final act"; and how far the EC must cut the volume of its subsidised farm exports, and the amount of subsidy.

Mr Andriessen and Mrs Hills will cover services and market access or "tariffication". Later, they may join Mr McSharry and Mr Madigan in four-way talks. The original impetus for the talks came from President Bush who sought them in a letter to Mr Jacques Delors, president of the European Commission. One theory is that Mr Bush, who trails Governor Bill Clinton, his Democratic opponent in all the recent polls, views a Gatt deal and its promise of a world economy revival as his secret weapon.

Officials also said EC leaders could endorse progress in the talks at the Birmingham summit on October 16, letting Mr Bush and European leaders declare, credibly, their belief that a detailed deal could be reached by the end of the year – in time for the March 1993 *deadline for expiry of the* administration's "fast-track" trade negotiating authority.

GEC Alsthom nuclear deal

By Andrew Baxter

GEC ALSTHOM Engineering Systems, part of the Anglo-French engineering group, has won an important contract from Paks Nuclear Power Plant of Hungary for a proposed spent nuclear fuel store at its 1,760MW nuclear power plant.

The contract will provide a spent fuel store for all four of Hungary's VVER-type pressurised water reactors.

Before the Soviet Union collapsed, it supplied fuel to VVER-type reactors in eastern Europe, pledging to take the spent fuel back. But Russia will no longer do this, making east European countries find an alternative to switching the plants off. The system chosen is GEC Alsthom's modular vault dry store system, approved in the US to store a wide range of spent fuel types and in service at a Colorado gas-cooled reactor plant.

Nafta treaty initialled in Texas

THE US Trade Representative, Mrs Carla Hills, Mexican commerce secretary Mr Jaime Serra Puche and Mr Michael *Wilson, Canada's* trade and industry minister, initialled the North American Free Trade Agreement (Nafta) yesterday, giving it preliminary approval, Reuter reports from San Antonio, Texas.

They were flanked by the leaders of their respective countries. The initialling must still be followed by a formal signing, and ratified by the legislatures of the three nations.

President George Bush hopes the treaty will boost his electoral chances, especially in states thought to gain from an increase in US-Mexican trade – hence the choice of Texas for the signing.

An opinion poll by the Mexican Institute of Public Opinion showed 48 per cent of Mexicans asked supported Nafta, down from previous estimates by other organisations.

Australia power plant problem

A proposed A$2bn (£800m) private power station in Western Australia is in jeopardy after *the state government indicated* it would not accept electricity prices proposed by Asea *Brown Boveri* (ABB), *the* Swiss/Swedish engineering group, Kevin Brown reports *from Sydney.*

ABB was commissioned in June by the West Australia *State Energy Commission* (SEC) to build and run Australia's first privately-owned and funded power station. But the project depends on final agreement between ABB and the SEC on issues including pricing and government support for associated debt.

Mrs Carmen Lawrence, Labor premier, has said the government would reject any contract with ABB raising energy prices or exposing the state to commercial risk. ABB plans to finance the project largely by bonds.

Trieste must wait to relive old glory

Hopes of an economic renaissance have been unfulfilled, Haig Simonian writes

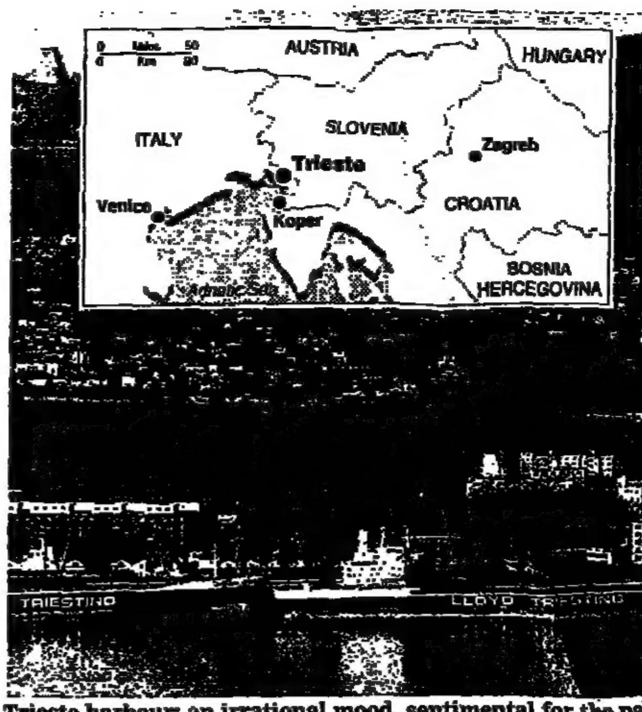
THERE are today some remarkably glum faces in Trieste, the Italian port city which three years ago thought of itself on the brink of an economic renaissance.

Once the port and commercial centre of the Austro-Hungarian empire, many locals believed Trieste would relive *its former glories with the* political and economic liberalisation of eastern Europe that was expected to follow the fall of the Berlin wall.

Even before that, Trieste was reasserting its historical function as a trading centre. On an average Saturday, it would be filled with cars from the former Yugoslavia – and even more distant east European countries – crammed with shoppers after scarce food and consumer goods.

While much of the trade was local and for private consumption, the volumes were immense, recalls Mr Pier Giorgio Luccarini, chairman of Cassa di Risparmio di Trieste, the city's savings bank. "Trieste used to be invaded by Yugoslavs. Rather than just buying one or two pairs of jeans, they would buy 20, keep two and resell the rest." The local chamber of commerce reckons cross-border business helped to support a disproportionately large retail sector for a city of 230,000.

Such flows fostered views that Trieste, isolated from the rest of Italy and vulnerable economically after losing its "hinterland" of Istria and Dalmatia to Yugoslavia after 1945, *was set for an economic boom.*



Trieste harbour: an irrational mood, sentimental for the past

"There was a mood which was irrational and sentimental for the past," admits Mr Giulio Staffieri, Trieste's mayor.

Instead, Trieste's economy has plunged into recession, with rising unemployment and a sharp increase in insolvencies. Retail sales alone have sunk by 40 per cent since hostilities broke out in the former Yugoslavia, the chamber of commerce reckons. Political turmoil in Yugoslavia put an immediate break on trade. While business has picked up *since independence in* Slovenia, Trieste's immediate neighbour, in mid-1991, commerce with other ex-Yugoslavian states remains depressed.

Economic difficulties have also affected Hungary and the Czech and Slovak republics, says Mr Luccarini. "Travel may be easier now than three years ago, but many Hungarians and Czechs have less money to spend than they did under communism." While commerce and services, on which the city's economy is based, have suffered badly, it has also been hit by the recession in the heavy, public-sector, industries which account for thousands of jobs.

The former Ilva steelworks are in receivership after a failed privatisation attempt, the local ship repair yards are in crisis because of overcapacity in the Adriatic, while the state-owned Grandi Motori marine propulsion group is suffering from a shortage of orders. Even the publicly-owned port, Italy's second biggest, is in loss.

Though wealthy, the city has one of Italy's oldest populations, while its birth rate is among the lowest. The population has been shrinking steadily for 20 years. Poor transport links with neighbouring east European countries have also impeded trade, says Prof Giacomo Borruso, *rector* of Trieste University and an expert on transport economics. *New road and rail links are* on the drawing board, but completion is still a long way off.

"What is missing in Trieste is entrepreneurship," says Mr Staffieri. "We need people who will set up new businesses and take advantage of the opportunities for trade with the east that will eventually arise."

Despite the difficulties, local businessmen have taken some initiatives. Eyebrows were raised last December when the savings bank opened a branch in the Slovenian port of Koper, across the bay. "No one could understand why," says Mr Luccarini. "But this is our obvious catchment area. Where else can we find new business?" Heartened by its success, he has just bought a small bank in Croatia.

The family-owned Illy coffee group, one of Italy's biggest, is planning to open a factory in Slovenia. Generali, Italy's biggest insurer company and Trieste's best-known company, has been returning to its central European roots with a string of deals in Hungary and Romania. "When the Berlin Wall fell, we felt we were on the verge of a new beginning," says Prof Borruso. "Now we realise it's going to take much longer."

Russia approves draft law to raise customs tariffs

By Chrystia Freeland in Moscow

THE Russian government yesterday approved a draft cus*toms law which, if it is* approved by parliament later this month, will impose tariffs *of up to 15 per cent on imports* and up to 30 per cent on certain sensitive exports.

Mr Alexei Ulyukayev, a senior government adviser, described the draft customs law as an effort "to defend certain branches of our domestic industry" and as retaliation against North American and *Western European anti-dumping* laws which he said had hurt Russian exporters.

It may also represent an effort by Mr Piotr Avens, Russia's reformist minister of foreign economic relations, to defend himself against the biting attack of Mr Boris Yeltsin, the Russian president, who on Tuesday accused Mr Avens of "lack of firmness and consistency in defending Russia's interests".

The draft law proposes import tariffs of 15 per cent on *finished goods* and 5 *per cent* on parts and raw materials. No tariffs are to be levied on foods and *medicines on the grounds* that these goods are in desperately short supply in Russia.

Under the old Soviet system, quotas were used to restrict exports.

Under the draft law, quotas will apply only to oil, oil products, precious metals and gas, which are heavily subsidised in Russia. In their stead, the draft proposes that exporters pay a tariff of between [illegible] and 35 per *cent* of the world price of the goods they are selling abroad.

To enforce the law, Mr Anatoli Kruglov, *head of the State* Customs Committee, told the official news agency Tass that *he hopes to double* Russia's current 300 customs posts.

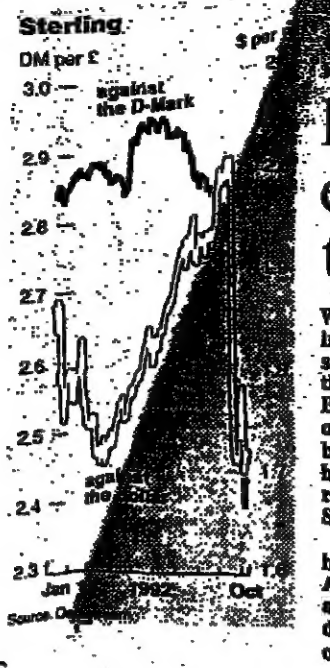
Mr Ulyukayev said that Russia *is forming a customs union* with Belarus and Kazakhstan, the most pro-Russian of the former Soviet republics, but that customs posts would be erected on Russia's borders with Ukraine, the Baltic republics *and with the Caucasus* region.

He said Russia was particu*larly disturbed by the smug*gling of roubles from the Baltic republics, where they are no *longer legal tender.*

According to the Tass news agency, approximately Rbs750m in cash have been smuggled into Russia from Latvia and Lithuania since those republics *de facto* adopted their own currencies.

UK businesses face up to the downs of sterling

How is sterling's sudden fall affecting businesses already hit by the recession? It has created opportunities for exporters and companies fighting foreign competition in the UK market. But it also poses problems for those importing goods and companies exporting to the UK. FT Reporters have talked to a wide variety of the businesses affected



NEW CARS

VW dealer hopes for low price increase

MR HARALD Peters and his two fellow directors have chosen the middle of the steepest post-war recession in the UK new car market to open a dealership on which they have spent "several million" pounds.

The dealership, in Stockwell, south-west London, is Volkswagen-Audi. Mr Peters is anxious to see what Germany's largest carmaker intends to do about a devaluation which should make Volkswagen and Audi cars much more expensive in the UK.

However, he says he has no regrets about opening the dealership, and expresses confidence that the manufacturer will not pass on any heavy rises in cars or parts.

"I believe it is possible that Volkswagen will introduce the level of increase we normally see at the start of each year, of 2 per cent to 3 per cent. But if it were 10 per cent, we would have no chance to compete with British or even other continental manufacturers."

John Griffiths

FOOD MANUFACTURERS

United Biscuits looks beyond $

UNTIL last month, United Biscuits' main concern about foreign currency exposure was to prevent the weakness of the dollar magnifying the impact of a steep slide in profits at Keebler, its US subsidiary.

UB is still struggling to restore Keebler's fortunes, but it has stopped worrying about the dollar. Mr Eric Nicoli, UB chairman, says a series of foreign exchange options taken out at rates a little above $1.70 to the pound are being quietly allowed to expire.

Cadbury Schweppes, which has sizeable soft drinks sales in the US, had also come to regard the dollar as its main source of foreign exchange risk. "Now we are treating all currencies as foreign," says Mr David Jinks, finance director.

Mr Jinks says Cadbury will benefit slightly from devaluation. He has revised his forecast of the adverse financial impact of currency fluctuations on the company from 4.5 per cent to about 1.5 per cent over the full year. He says the company, which exports about £40m worth of confectionery every year, will peg prices.

Mr Nicoli does not expect sterling's decline to have a big impact on UB in the short-term, but is unsure whether the gains outweigh the losses. "You'd have to do the calculations twice a day to give an answer."

Both companies expanded internationally in the 1980s, with a particular priority on continental Europe, and their sterling results will be flattered by income from acquisitions in countries in the European Monetary System.

They are reasonably sanguine about the immediate effects of devaluation in input costs in the UK. The main consequence so far has been in downward adjustments by the EC to the value of the "green" pound – the rate at which EC farm prices are expressed in sterling – which has increased the sterling price of sugar.

Guy de Jonquières

TOUR OPERATORS

Specialist keeps an eye on the pula

WHILE much of British industry is preoccupied with sterling's gyrations against the D-Mark or US dollar, Mr Bob Winder, finance director of travel company Abercrombie and Kent, spends anxious hours monitoring exchange rates of the Botswana pula and Seychelles rupee.

A specialist in up-market holidays in exotic locations, Abercrombie and Kent does about a third of its business in developing countries where outgoings have to be paid in what Mr Winder calls "funny currencies".

These are thinly traded, so it is impossible to obtain forward cover against exchange rate fluctuations. Indeed, Barclays Bank is the only source of Botswana pulas in London.

"This creates quite a problem," says Mr Winder. "We can either seek to protect ourselves by buying a big pile of currencies like the Seychelles rupee and putting them in the bank, or sweat it out. We are tending to sweat it out."

Many developing countries, including India and Tanzania, have started to shift their tourism transactions to a hard currency, usually the US dollar, so they reap the benefit of any fall in their own currencies.

In these cases, Abercrombie and Kent has routinely hedged its risks by buying forward. But Mr Winder says the company has stopped taking out such cover since sterling was floated and is waiting for trends in the foreign exchange markets to become clearer.

Instead, it is delaying fixing final prices for its package tours – average cost £2,500 – for as long as possible.

Guy de Jonquières

MACHINE TOOLS

Salesmen pound Europe's pavements

SALESMEN from Bridgeport Machines, the Leicester-based machine-tool maker, are already pounding the pavements of Europe to exploit a cheaper pound in promoting their products.

"People have left for Germany today to try and cash in on our lower prices," says Mr Malcolm Taylor, managing director of Bridgeport. "We are also sending to Italy, though they seem to be more or less in the same boat as us."

The company, whose annual sales are running at around £30m – half the level recorded in 1990 – exports about 60 per cent of all its machinery. Thirty-five per cent of all sales go to Europe.

According to Mr Taylor: "The market is very price sensitive in recession and the fall of sterling makes an important difference on a machine costing up to £70,000. We are out there today, aggressively exploiting the situation."

Mr Taylor acknowledges that imports of German and Japanese technology used by his business will cost more, but says the overall impact of sterling's decline is beneficial.

"We have got to where we wanted to be by default. When the pound was higher, we were struggling to sell. Now there are far more opportunities and we are getting back into deals which were previously aborted on price grounds".

Bridgeport is playing the cheaper pound for all it is worth. Salesmen are at the Leipzig machine tool show, supporting the company's German agent and pressing home the advantage of lower prices.

Poor sales at the Chicago show revived towards its close because of the falling pound.

"We had almost lost the US market at nearly two dollars to the pound. But we are back to reality and the impact has been immediate". All Bridgeport wants now is the restoration of some stability to the exchange rate.

Michael Cassell

A desire to boost sales rather than to reflect the effect of sterling's decline has inspired a "devaluation sale" by Golf City, which runs three golf equipment shops in southern England. The group's will be little affected by the state of the currency because most of its stock is UK-manufactured. "The idea was to create a bit of interest," explains Stephen Williams from the group's City of London shop (above). "Things are pretty quiet out there"

CONSTRUCTION

Costs likely to rise by up to 2%

THE COST of building in Britain could rise by between 1 per cent and 2 per cent as a result of the devaluation of the pound, according to E.C. Harris, an international construction cost consultant.

Imports account for about £4bn of building material sales of £32bn. Britain ran a trade deficit of almost £1.8bn in building materials during the 12 months to the end of June.

A 10 per cent devaluation of sterling would increase the annual building materials import bill by £400m adding about 1.25 per cent to contractors' costs.

Mr Martin Laing, chairman of John Laing, a UK contractor with annual sales of more than £1bn, said sterling's devaluation would increase pressure on prices of basic commodities such as timber and oil-based goods not produced in the UK.

But competition in depressed UK and overseas construction markets might restrict price rises in the short term.

E.C. Harris said contractors working on long-term fixed-price contracts would suffer from higher material or labour costs. Many were already working on tiny margins.

Andrew Taylor

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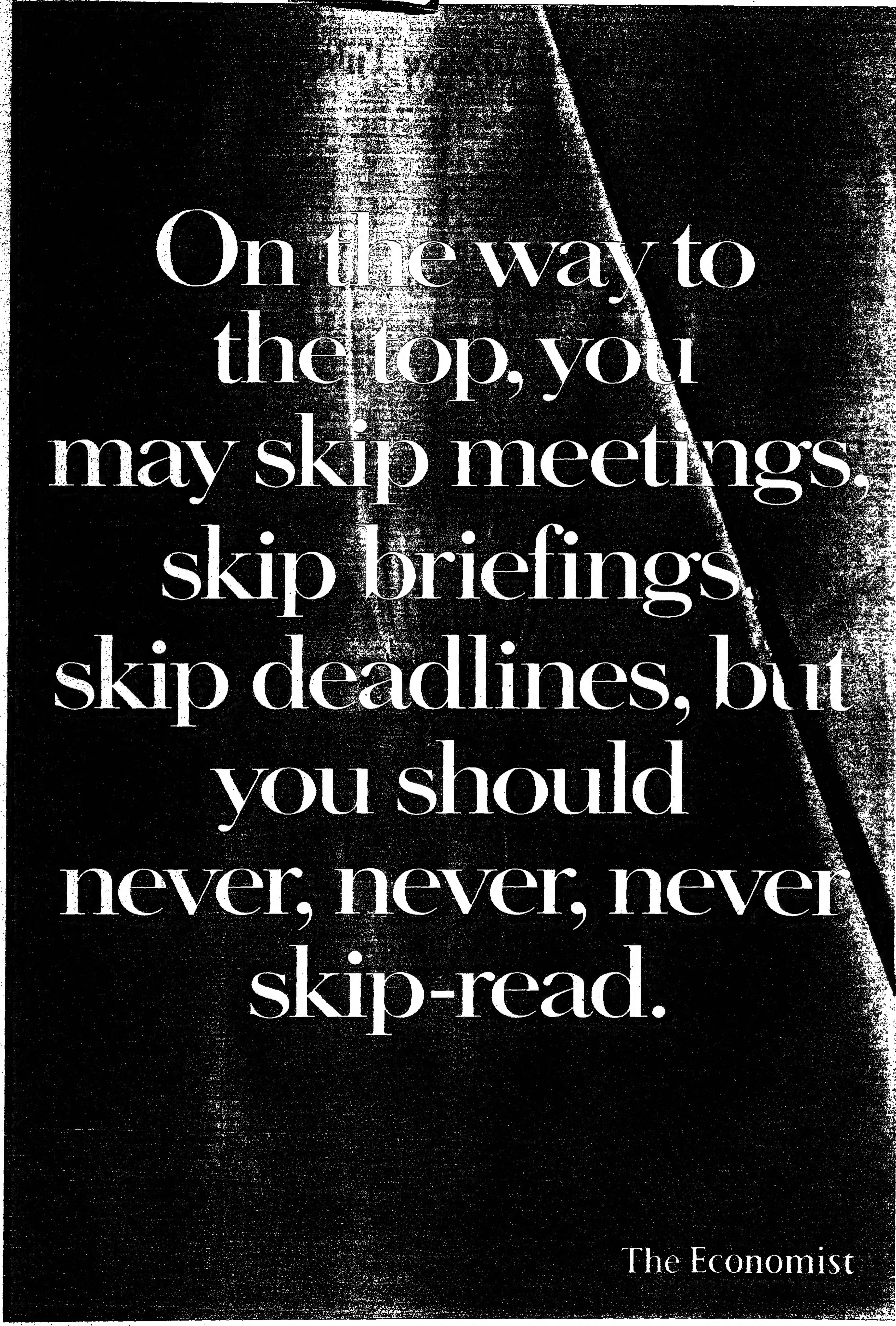
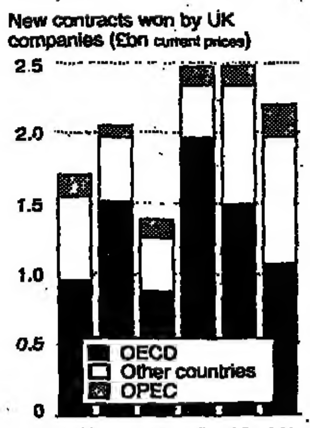


Overseas construction

New contracts won by UK companies (£bn current prices)



Source: D of E *Provisional

Contractors hit by US recession

By Andrew Taylor, Construction Correspondent

UK contractors, under severe pressure because of the recession, won fewer overseas contracts last year, according to figures published yesterday by *the environment department.*

The value of international construction orders won by British companies fell by 11 per cent compared with 1990 to £2.2bn last year.

The biggest fall in orders was in North America where the value of contracts fell by more than 30 per cent from £1.14bn to £781m. The decline *reflects* the recession in US construction markets.

Overseas contracts account for less than 10 per cent of total order books of British construction companies.

Contractors last year made big gains, however, in the Far East, the world's fastest-growing construction market. The value of Far Eastern contracts won *by British* companies jumped by almost two thirds *from £353m to £575m.* This was despite a £75m lower contribution from Hong Kong.

Construction of Hong Kong's multi-billion pound Chek Lap Kok airport is expected to provide big opportunities for UK construction companies over the next few years. Costain, Trafalgar House and Amec have have already won contracts for a project *that* rivals the Channel tunnel in size.

Canary Wharf administrators and construction companies urge funding for new line

Last minute bid to save Tube link

By Robert Peston and Andrew Taylor

THE administrators of Canary Wharf, *the east London office* complex developed by Olympia & York, will today make a last attempt to prevent the government shelving plans to extend the Jubilee underground line to London's Docklands.

At a meeting in London, they will ask the 11 commercial *bank creditors to make a no-*strings offer to the government of a £390m contribution to the Jubilee line's £1.6bn costs.

Separately, *construction* industry leaders warned the government *against* cancelling the extension. Mr Frank Kennedy, a director of Wimpey, a contractor bidding for work on the extension, said: "To scrap the project when the construction industry is on its knees would be extremely ill-judged." Mr John Hackett, director of *the Federation of* Civil Engineering Contractors, said 4,000 construction jobs depended on the extension.

Mr Denis Tunnicliffe, managing director of London Underground, warned *that if* transport ministers cancelled the project they "will have to explain to the Public Accounts Committee why they have already allowed us to spend £120m on the project".

Last week, the banks made an offer to the government but *said it was conditional on the* environment department renting a building at Canary Wharf. Senior ministers have made it clear the government will not accept an offer linked to the relocation of officials.

The government has stressed *its commitment* to build the Jubilee Line if the private sector contributes £400m should not in any way depend on government support, such as revenues from renting a building.

The banks' proposal involves paying £98m immediately and the rest over 25 years. The *Treasury, which wants the line* scrapped to reduce public expenditure, has expressed misgivings about the fact that the banks will not guarantee the later payments. These depend on Canary Wharf being sold to a developer which *would meet the commitment.*

The banks have told the government that if the later payments are not made it can reclaim the undeveloped land around Canary Wharf.

The administrators have also yet to win bank support for proposals to keep Canary Wharf *afloat* if *the* Jubilee extension gets approval. They have said the banks would probably be prepared to provide £30m in new loans to Canary Wharf to maintain services at the 15 new office buildings.

Lamont likely to seek further cuts in public spending

By Philip Stephens, Political Editor

MR NORMAN LAMONT will today seek to restore the government's credibility in financial markets by putting tough control of public spending at the heart of *the economic strategy which replaces* UK membership *of the European* exchange rate mechanism.

As the chancellor prepared *to set out at the Tory conference* in Brighton the new ground rules for his economic policy, cabinet colleagues said the Treasury wanted to lower further the *£244.5bn* spending figure agreed for next year.

In spite of public admissions that the *existing* targets would involve significant cash reduc*tions for most* Whitehall spending programmes, the ministers *said* the Treasury was emphasising that the figure was a "ceiling" rather than a target.

Ministers said the allocation of the overall budget between different departments would not *be* agreed *for* several weeks, but it was already clear several of cherished projects would be cut.

The Treasury has told spending ministers that four unavoidable spending increases – on the unemployed, EC farm subsidies, legal aid and on the increased numbers in higher education – have more than wiped out £4bn from the Treasury's contingency reserve.

With more than £1bn allotted to ease the replacement of the poll tax by the council tax, it would be impossible to avoid cash reductions in budgets ranging from health to overseas aid.

Mr Peter Lilley, social services secretary, whose unemployment benefit budget will rise sharply as a result of the recession, acknowledged yesterday he faced much tighter constraints on *discretion* benefits for the poor and disabled.

Mr John MacGregor, the transport secretary, and Mr John Patten, the education secretary, admitted they faced a squeeze on resources.

Mr Lamont intends to use his speech to the conference to set out the broad parameters of his anti-inflation strategy.

Apart from tight control of spending, he will say interest *rates will be set to meet mone*tary targets with both exchange rate and asset prices taken into account.

Splits threaten to make Tories a band on the run

Philip Stephens assesses the clash of wills threatening policy on Europe and the economy

FORGET *Maastricht. It is* the economy that *counts.*

That will require self-discipline. Lord Tebbit offered a vivid reminder this week that the Tory party has still to catch up with Britain's modest place in the world.

Lady Thatcher, who will join Mr John Major in a synthetic *show of solidarity on the plat*form this morning, will not be *silenced. Her assault on the* exchange rate mechanism and *on* Maastricht in "The European" is a direct attack on the leadership of her successor.

It took two decades for the Conservatives to come to terms with the end of empire. It is taking them longer still to realise Britain rather than Europe is left isolated when fog *descends upon the Channel.*

So the emotional outpouring *on the conference floor* foreshadows months of guerrilla warfare at Westminster. There will be a debate in principle on the Maastricht legislation after MPs return of the Commons on October 19. But ministers have yet to decide whether Mr Major can risk bringing forward the committee stage – when the details of the bill will be examined in detail by *MPs – before* the Edinburgh summit.

Once examination of the bill starts it will have to be taken "on the run", with all other legislative business pushed to *one side for three or four* weeks.

The *prime minister has been* told his parliamentary business managers can guarantee majorities against the Tory Euro-sceptics only if ministers drop their European presidency duties to stay at Westminster.

So the committee stage might yet be deferred until the New year, leaving the splits to fester through the autumn.

But no-one – Lord Tebbit no more than Mr Douglas Hurd – *doubts the government* has the capacity to ratify Maastricht. In the end Conservative heads will rule Tory hearts.

The economy offers no such certainty. Those expecting Mr Norman Lamont to produce a blueprint for a totally new economic policy will be disappointed. Life outside the ERM is not that simple.

The Chancellor will set out the parameters of a strategy, *which will be familiar to* anyone who watched the then Mr Nigel Lawson struggle to frame his policy during the mid-1980s.

The starting point is the objective of low inflation has *not changed.* The delivery mechanism will be tight control of public spending and a mix of monetary indicators to determine interest rates.

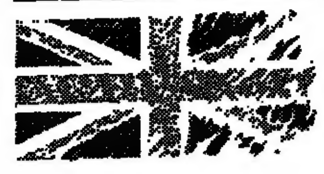
The value of the pound will, as Mr Lawson used to say, be "taken into account". Sticking to the public spending targets should *allow modest tax reduc*tions in income tax in the approach to the next election.

Mr Lamont's first priority is to show he still deserves to keep his job – first to his audience in Brighton and through their acclaim to the financial markets. But for many colleagues his speech will be no more than a staging post. They want *sterling back in the ERM,* not this month or next but *within perhaps a year.*

But the leading pro-European *ministers* – *Mr Hurd, Mr* Michael Heseltine and Mr Kenneth Clarke – see no reason to fight the ERM battle now. They acknowledge the difficulties posed by Maastricht. They also see the economic case for caution about the timing of re-entry.

Next spring or summer seems a more realistic bet. So *for the moment* they echo Mr Lamont's formula that sterling *will float for the "foreseeable* future". But the ghost of the ERM has not been banished from the cabinet table.

Britain in brief



Government to sell BR parcel group

Mr John MacGregor has signalled that the government will press ahead faster than expected with the sale of Red Star, British Rail's lossmaking express parcels service, as part *of a six-point transport* privatisation programme.

Speaking at the Conservative Party conference, the transport secretary also revealed that London's buses would be privatised in 1993 and that the first round of railway passenger franchises would be introduced a year later.

Mr MacGregor told delegates that he had "just" authorised the sale of Red Star, which last year lost £12m on a turnover of £60m, and hoped to have completed the disposal of BR's other freight and parcels services before 1994 "once we have the legislative authority."

British Coal buy-out planned

East Midlands Electricity and the Union of Democratic Mineworkers are preparing plans for a buy-out of British Coal that would include a 20 per cent stake for employees.

The consortium would be willing to bid for the whole *company, but would consider* other structures if the government *preferred* to break it up. One preference would be to split British Coal into two equal sizes with a mix of deep and open cast mining.

Local pay call for 'expatriates'

Multi-national employers are seeking increasingly to *encourage their "expatriate"* European workers to accept local *pay packages* according to a report published by the Confederation of British Industry, the UK employer's organisation.

The report by the CBI's Employee Relocation Unit said many employers wanted to create a more homogeneous workforce *and believed* they must develop plans to phase *out differentials* in pay packages between employees transferred from one location to another – the expatriates – and local staff.

Councils face insurance hike

Local authorities in England and Wales face steep increases *in insurance* premiums as a result of the demise of Municipal Mutual, the stricken insurer, a conference organised by local authority associations has been told.

The increase in premiums could average at least 50 per cent from last year's estimated total of £600m, *according to the* Association of Metropolitan *Authorities.*

Student closed shop to end

Automatic membership of the National Union of Students will end soon, *Mr John Patten,* secretary of state for educa*tion, told the Conservative* party conference.

"We have abolished the closed shop everywhere else. There is no reason why it should linger on in our universities and colleges," he said. "The NUS closed shop must go. It must go soon, and go it will."

The NUS, which has an *annual income of about £2m* from affiliation fees, rejected *Mr Patten's "closed shop"* claim.

Hospital moves queried

The Charity Commission has asked St Thomas' hospital, London, for details on the expenditure of £160,000-worth of charitable funds in a campaign to promote the hospital's image.

St Thomas' is one of several central London teaching hospitals *on the danger list* for possible closure in a report due to reach Mrs Virginia Bottomley, health secretary, next week.

PEOPLE

Midland casualty returns to consultancy

American Gene Lockhart, who used to be Britain's highest paid banker, hasn't taken long *to find a new job. The former* chief executive of Midland *Bank's UK banking operations* has returned to his old firm, New York's First Manhattan Consulting Group.

The 42-year-old Lockhart, who was thrown out of work after the Hong Kong takeover of Midland in July, says that he "had four or five offers" to run US banks. However, he decided to go back into consultancy so *that he could* make some "real money".

He has been appointed president of First Manhattan Consulting International. First Manhattan, which specialises in advising financial services companies, is not represented in London but Lockhart plans to rectify this and says that he expects to spend between a *third and a half of his time* in the UK.

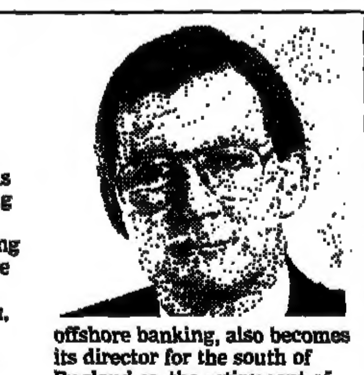
Although Midland Bank's problems before the takeover have received considerable attention, Lockhart is generally reckoned to have done a good job in turning round the UK banking business. When he joined Midland in 1987 as head of its group operations he was the first foreigner to be made an executive director of a UK clearing bank.

During the two years he headed Midland's UK banking business, he increased operat*ing profits by over 70 per cent,* reversing a five year decline. He reduced the workforce by 15 per cent, increased net interest margins by 30 per cent and introduced a number of innovations such as Firstdirect telephone banking service which attracted over 200,000 new cus*tomers from other banks.*

Although some commentators *have questioned whether* Midland's standards of service sufferred during Lockhart's brief regime, he describes his time there as "very successful" and plans to apply the lessons learnt to other banks.

Meanwhile, there is no news yet of what Dutchman George Loudon, the former chief executive of Midland Montagu and the other high profile casualty of the Midland takeover, is *doing. Before joining Midland,* Loudon had held senior positions with McKinsey & Co and Amro Bank.

Moves in finance



■ After 37 years in the business, David Lumsden this week retired from the broking firm which bears his name, Henry Cooke Lumsden, having seen it develop into one of the UK's biggest regional *stockbroking firms. Lumsden,* 61, joined the family firm of Lumsden & Co in the City in 1955, eventually merging the firm with Manchester-based Henry Cooke in 1973. Since then, Lumsden has acted as managing director of the firm's London offices.

■ Stephen Burnett has been *appointed to the board of* HAMBROS BANK.

■ Christopher Wood, formerly a director of Renold, has been appointed a director of FALKNER MOLLER PARTNERS.

■ *Duncan Grant is appointed* director of SAVE & PROSPER Educational Trust *on the* retirement on December 31 of John Shelley.

■ Julian Rogers-Coltman, Guy Boardman, Hugh Morshead, John Tierney, Mike Whittaker and Jeff Woyda have been *appointed directors of GNI Ltd,* a subsidiary of GERRARD & NATIONAL HOLDINGS.

■ Fernando Alonso has been appointed md of CENTRAL HISPANO BANK (UK); he replaces Francisco Navarro *who has returned to Madrid* as head of the Asia-Pacific area.

■ Chris Pearson (above), director of ROYAL BANK OF SCOTLAND's private & offshore banking, also becomes its director for the south of England on the retirement of Alan Peers.

■ Neil Williams, formerly head of economic policy at the CBI, has joined DAIWA's bond research department as an economist.

■ Brian O'Connor has been *appointed to the board of* AITKEN HUME INTERNATIONAL.

■ Charles Kovacs is moving from PW corporate finance in Budapest to head BZW's Budapest office.

■ *David Fordham,* formerly head of public sector *department at Banque Paribas,* London, has been appointed director of public sector finance at BANQUE INTERNATIONALE A LUXEMBOURG's London branch.

■ *Duncan MacDonald* has been appointed finance director of GRE PROPERTIES.

■ Andrew Revill, formerly corporate banking director with Midland Bank, has been appointed head of corporate *banking at CREDIT* LYONNAIS UK.

■ William Scott, a director of ANGLO & OVERSEAS TRUST, died on October 4.

Courtaulds

The reshuffle at Courtaulds following the departure of Richard Lapthorne, finance director, to British Aerospace, appears to have run its course with the appointment of Neville Petersen as head of the *Coatings operations in Europe.* Lapthorne was replaced as *finance director* by Michael Pragnell, who was previously chief executive of Courtaulds coatings. Pragnell, in turn, has been replaced by Eryl Morris who now has main board responsibility for coatings which last year had a turnover of £678m and made profits of £59m.

Petersen, 52, was previously group chief executive *of Plascon* Paints South Africa, the market leader of coatings in South Africa.

Evered Bardon

Rationalisation at the head office of aggregates group Evered Bardon, where staffing *levels have virtually halved in* the past 14 months, has led to the jobs *of commercial* manager and company secretary being rolled into one. *Tim* Grimes, who was company secretary of Evered between 1986 and 1991, and who has since been commercial manager of the merged Evered Bardon, now reassumes the role as company secretary as well.

This leaves David Kaye, who *had taken over* as company secretary in 1991 after previously being *commercial* manager, without a job. "There was nothing else to offer him; the parting was perfectly amicable," says chief executive Peter Tom, who was chairman and chief executive of Bardon, *before* Evered and Bardon came together last year.

Grimes *had initially wanted* to leave before the merger, but stayed on in a consultancy role for two months in early summer of 1991. He then changed his mind and took the job of commercial manager.

■ Pamela Taylor, currently head of public affairs at the *British Medical Association,* has been appointed director of corporate affairs for the BBC.

■ Ian Leigh, formerly finance director of Colorvision, has been appointed finance *director of SHORROCK* SECURITY SYSTEMS, a subsidiary of BET.

■ Christopher Berry Green has been appointed deputy chairman of BERRY BROS & RUDD; he is replaced as md by Tony Easter, formerly acting md *of WS Karoulias,* Cutty Sark's distributor in Greece, and recently bought by Berry Bros & Rudd.

■ John Blakeley has been *appointed to the board of* GLYNWED INTERNATIONAL as *director for corporate* services; he is replaced as group secretary by Ian Shearman.

■ Antony Snow has been appointed chairman of Hill and Knowlton, part of WPP; Paul Taaffe, formerly joint md of Shandwick Consultants, has taken his place *as chief* executive.

هكذا عن الأصل

Gary Mead finds agencies having a crisis of confidence

Why the customer is always right

The malaise of the UK advertising industry is firmly rooted in economic recession. Since 1989, at least 2,500 jobs have disappeared, leaving a pool of about 13,000 employed in the sector; as the recession continues, the fear is that more redundancies are inevitable.

But not just redundancies. Last Friday, the Institute for the Practitioners in Advertising (IPA) – the advertising agencies' trade association – staged a lugubrious conference in London, under the rhetorical title, "Are Advertising Agencies History?"

The consensus was "of course not"; but no real agreement emerged as to what the future of advertising agencies might be.

The industry's flagging morale needs a boost. But against the background of fewer jobs, frozen or reduced marketing budgets, squeezed commission rates and no indication of an end to the recession, a dark cloud hung over the IPA's 75th anniversary.

Yet within that broad gloom are contrary indicators, not the least being Unilever's decision – made known to its advertising agencies last week – that it is standardising its commission payments to advertising agencies at 13 per cent.

While that is 2 percentage points below the long-standing figure demanded – but today rarely obtained – by advertising agencies, some agencies used by Unilever around the world have seen commission rates forced as low as 6 per cent.

It is most unusual for one of the world's largest marketing spenders – of about £1.5bn annually, making it the largest advertiser outside the US – to make such a move. Unilever believes it could probably have forced rates down to 11 per cent. It chose not to because it wished to be seen to emphasise the importance it places on high quality advertising. Cheaper commission rates would, Unilever believes, ultimately have meant poorer quality advertising.

That signal of confidence in the role of big-spending advertising was reiterated by Michael Perry, Unilever's chairman, who at the International Association of Advertisers' conference in Barcelona on September 29, said: "Advertising is at the very heart of our business. And you can be sure that it will stay there."

Such an opinion from such a company should hearten not just Unilever's advertising agencies but those of other companies too.

But if Unilever has made a very public commitment to its own marketing budgets, other companies – including Unilever itself – are privately much less certain that they are getting value for money from their advertising agencies, particularly in the field of press advertising.

The first findings of a continuing study by the Incorporated Society of British Advertisers (ISBA), carried out in collaboration with the marketing communications company, Advertising Research Marketing (ARM), suggests that many ISBA members – companies which employ advertising agencies – are thoroughly dissatisfied with their relationship with advertising agencies.

The study*, reflecting the views of 101 of ISBA's 750 member companies – combined, the participants spend more than £280m annually in press advertising – indicates that nearly three-quarters are highly concerned about creative and production costs.

While they may have these concerns, some questions need also to be asked of the advertisers themselves. Only 30 per cent of the companies receive detailed invoices from their agencies. Invoices showing total bills only, with no breakdown of the work done and what it cost, were received by 35 per cent.

While 85 per cent of the surveyed companies obtain estimates for the creative and production work from advertising agencies, only 20 per cent of the survey seek comparative quotes from other agencies, "putting those companies who make proper use of estimating procedures in a position where they may know the price of most services, but have little idea of the relative value of what they are buying."

John Orsmond, chairman of ARM, says: "This compounds the confusion of complexity, endemic to the industry's variable-cost conventions."

Furthermore, the ISBA/ARM study suggests that the traditional means of advertising agency remuneration – payment by percentage commission, usually close to 15 per cent – has collapsed.

Just 49 per cent of the respondents now pay their agencies through the commission system, the rest by forms of retainer and time fees or separate charges, often stipulated by the client.

Ken Miles, director general of ISBA, says that the survey arose from increased concern over press advertising production costs. "A lot of advertisers are finding print production costs rising rather rapidly and they have very little idea of the real basis on which costs are placed and some of them are rather doubtful of the value they are getting."

According to Miles, there is a head of steam building up among companies which, particularly in a recession, are increasingly focusing on advertising costs. "There is widespread agreement that the agency business is changing a great deal. There is some question over whether agencies are constructing charges in line with costs and traditional mark-ups, or whether they are charging what the market will bear."

One problem facing advertisers is the absence of industry-wide guidelines on what press advertisements can, or should, cost. But while it is difficult, companies such as ARM insist that it is possible for clients to find out precisely what it is they are paying for.

By way of example, over the past 13 years ARM has developed fixed-cost mechanisms for clients, as opposed to the industry norm of variable costs.

Miles says: "I don't think there is a widespread set of circumstances in which agencies are ripping off clients. Nevertheless, any client company which doesn't bother to check is not doing their job very well."

And when surprising bills do arrive, one of the first to suffer is the reputation of the advertising agency; accounts are won on creativity but all too often lost on administration.

ISBA/ARM's press inquiry is now moving into stage two, a detailed examination of actual costs specific to each stage of the creative and production process. The crucial stage three – a consideration of what to do with the information obtained – will come much later.

Whatever the details of stage three, it is bound to signify yet another step in the trend of relative power shifting from advertising agency to client. While advertising agencies are far from being history, those that cannot adapt to the new economic hard-headed attitude of clients may not have much of a future.

* *From ARM, 1 McCrone Mews, Hampstead, London NW3 5BG. Free.*

How advertisers pay agencies for press advertising

Source: ISBA/ ARM press inquiry

Partners at Pentagram: David Pocknell (left) and Daniel Weil

Redrawing the Pentagram blueprint

By Alice Rawsthorn

For years, Pentagram has been a beacon of stability in the turbulent world of the London design industry.

Pentagram has clung to its original, early-1970s concept of operating as a partnership of studios, run by individual designers. It was criticised for being too cautious in the bullish 1980s. But at a time when the rest of the industry has been blitzed by receiverships and redundancies, Pentagram has been unscathed by recession and is seen as a role model by the young designers of the 1990s.

There have been changes over the years. Pentagram has taken on three new partners in London and has opened offices in New York and San Francisco, run as independent partnerships. But the structure has stayed the same and the five founders – Theo Crosby, Alan Fletcher, Kenneth Grange, Mervyn Kurlansky and Colin Forbes – have all remained.

Pentagram is now poised for change. Fletcher is leaving to go freelance. Forbes, who opened the New York office in 1987, retires next autumn. Kurlansky is assessing the feasibility of opening an office in continental Europe which would involve him leaving London. The London office is taking on two new partners – Daniel Weil and David Pocknell. Pentagram is about to discover whether its structure really is a durable formula, or if its success so far has been due to the individuals involved.

The blueprint for Pentagram was invented by Forbes and one of his clients, Ian Hay Davidson, then a partner at Arthur Anderson, the accountancy group. They devised a cellular structure, based on legal and accountancy partnerships, whereby individual designers worked from their own studios while sharing central resources such as accounts and public relations.

The main difference between Pentagram and its role models was that there was to be no hierarchy.

This egalitarian ethos has dominated public perceptions of Pentagram ever since. The partners at each office receive the same salaries and equal shares of annual profits. They work for large commercial clients such as Kodak, Boots and Reuters, but also have strong creative credentials. Crosby and Weil both teach at London's Royal College of Art as well as running commercial studios.

But behind the liberal facade lies a labyrinth of rigid financial controls. Pentagram, one of London's larger design groups with turnover of just under £5m last year, is run much more rigorously than most conventional design companies.

Each partner is set the financial target of covering costs and making a 25 per cent profit margin. Costs are calculated according to the number of people in the partners' studios – with employees graded in five salary bands – and their proportionate share of central overheads. This system is self-supportive, in that it can cushion partners through difficult years, but also ensures there is strong peer pressure on them to meet their targets.

New recruits are subject to the same rigorous scrutiny. They join as "partners-elect" on the same salaries as full partners but with no profit share. They then have two or three years to prove that they can perform financially.

So far, Pentagram has had mixed success with newcomers. There have been seven partners-elect in London since 1972 and only three – John McConnell, David Hillman and John Rushworth – have so far become full partners. "It is a risk when we take on new people," says McConnell. "But we've got to do it to make sure that Pentagram has a future. That's why we've brought in Daniel Weil and David Pocknell."

Meanwhile, the three international offices must fill the vacuum left by Forbes. Although Pentagram purports to be non-hierarchical, Forbes has always acted as de facto chairman. His retirement has forced the other partners to question whether they can continue without a formal structure for decision making. Their solution is to create a steering committee of representatives from the three offices which will elect a chairman for a three year period, the first being McConnell.

The combination of these changes in personnel and structure present a formidable challenge for Pentagram. "The next few years are certainly going to be interesting," says McConnell. "Although that's probably a rather coy way of describing it."

Andrew Baxter explains why the east German engineering sector is a mine of metal expertise

Aladdin's cave

Discovering signs of life in the east German machine tool industry is almost as hard as finding traces of the Berlin wall, whose overnight dismemberment has turned whole sectors of manufacturing into mere shadows of their former selves.

An industry which in 1990 ranked ninth in the world with production worth more than $1bn (£500m) has seen employment fall from about 100,000 before reunification to 15,000-18,000. But the collapse is only half the story.

Among west European machine tool builders, the perception of the east German industry was as a producer of solid, unexciting machines, mechanically sound but with outdated control systems, and tawdry, unproductive factories.

Much of the manufacturing capacity has now been swept away along with the industry's markets in the former Soviet Union and eastern Europe. And there has been little reason for west German machine tool builders to make acquisitions they have enough problems of their own and do not need extra manufacturing capacity.

Even in a recession, however, machine tool companies are interested in technologies which have the potential to transform the economics of one of the industries to which they provide manufacturing equipment.

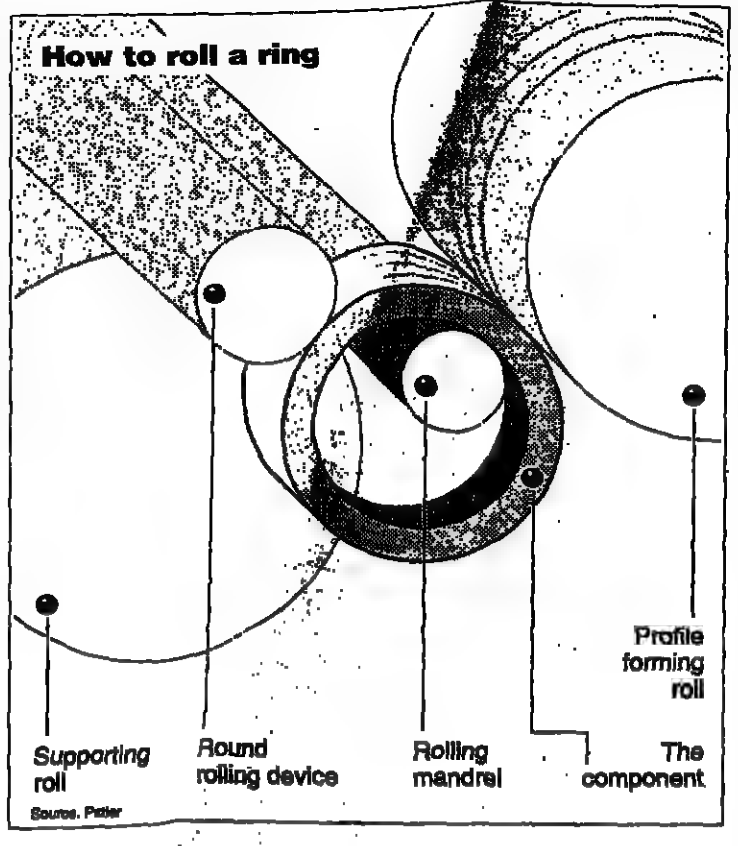
Such is the case with Bad Düben Profilwalzmaschinen, based in the spa town of Bad Düben near Leipzig. A few months after reunification, the company was purchased by Germany's Pittler Group, one of the world's largest machine tool companies.

The main attraction of Bad Düben for Pittler was its development of ring rolling, a technology that is often viewed as a holy grail in industries such as the bearing sector which uses accurate, hard-wearing rings in high quantities.

Ring rolling has been around for about 15 years, and for ring producers offers an alternative to machining. Instead of using a turning centre to cut a ring from a blank, a section of steel tube is loaded on to a mandrel – a cylindrical rod around which metal is shaped. When the mandrel rolls it expands the blank into its correct shape against a profile forming roll, with a smaller round rolling unit to control roundness (see graphic).

There are disadvantages in the process. The original ring has to be extremely accurate, which requires some initial work in a lathe, and there are size limitations. Bad Düben's URWA 100 machine will produce rings up to 120mm but, with Pittler's encouragement, is now developing larger capacity models up to 250mm.

How to roll a ring



Source: Pittler

But the process is fast – as little as three seconds per ring – and the end product has an accurate, high-quality finish that, says Pittler, reduces the need for finish grinding. And, perhaps most importantly, the forming process can increase the component's performance by up to 50 per cent, raising the possibility of using lighter bearings to do the same job.

Ring rolling can increase the component's performance by up to 50 per cent

It is partly because metal-forming can improve the quality and strength of a previously low-grade material that the entire eastern bloc is an "Aladdin's cave" for R&D of cold-forming techniques, says Peter Standring, senior lecturer at Nottingham University's Department of Manufacturing Engineering.

A second reason for the eastern bloc's prowess in metal-forming, he says, was the central control of its machine tool industries. Ideas from universities would be given to single, large companies to develop.

This was what happened at Bad Düben, which began work on ring-rolling in 1982 in collaboration with a Dresden academic. The company was founded in 1948 and gained many years of experience in the technology of cold forming. By 1989 it was a world leader in machines for rolling rings, screws and gear parts used in the automotive, aerospace and other industries.

It also, naturally, had some of the ideological baggage that bedevilled east European industry and stifled its products' market potential. Unwilling to talk to western companies which it feared were after its secrets, it was allowed to talk only to the Koreans and Japanese – and ended up seeing some of its ideas copied.

After the fall of the Berlin wall, the Rothenberger brothers who control Pittler were among the first to make contact with the east German machine tool industry.

Bad Düben had been identified as a target in 1988-89. "We thought it would make a good addition to our range," says Dieter Weidemann, chairman of Pittler. The group has also regained indirect control of Drema, a Leipzig-based producer of multi-spindle autos founded in 1889 by the original Wilhelm von Pittler, and is discussing a third takeover.

Since its takeover Bad Düben's profile has been transformed – the west has taken over from eastern Europe as its biggest market, although volumes are much lower.

For Pittler, the main task now is to develop Bad Düben's ring-rolling technology further, and its markets for this and other products in the west. Ring-rolling is not unique to Bad Düben, but the company claims to be ahead of its competitors in solving some of the technique's inherent disadvantages. It is working, for example, on a process for rolling asymmetrical shapes, which could be ready in the next two years.

According to Standring, Bad Düben's technology is excellent, but ring-rolling will be able to match the economics of conventional turning only for high-value added components. The tubing for the original blank costs more than a solid blank, and there is not much to be gained in speed when compared with modern automated turning machines, he says. But the process could be attractive to producers of bearing rings designed for applications where quality is paramount, such as in aerospace.

The challenge for Pittler is to convince the bearing industry of the benefits of Bad Düben's ring-rolling technology. This is not easy during a recession that is making bearing producers wary about making equipment purchases, and in an industry that is coalescing around a handful of major producers.

But if a bearing producer fears that a competitor could gain a permanent cost advantage, it could be forced to follow suit. Unfortunately, though, the bearing industry is fanatically secretive about its manufacturing technology, and Pittler and Bad Düben might then find themselves having to keep a low profile.

Knowing no bounds

Louise Kehoe looks at Microsoft's ambitions

The ambitions of Microsoft know no bounds. Not content to dominate the market for software run on stand-alone PCs, the world's largest software company now aims to extend its reach into "workgroup" computing.

"We are seeing the world evolve from islands of information on individual workstations to groups of people collaborating on shared information," says Bill Gates, Microsoft chairman and chief executive. He aims to put Microsoft in the forefront of this "PC evolution" with a rush of new products over the next six to nine months.

The PC remains at the centre of Gates's world but his strategy reflects the view that networked PCs will eventually take over the traditional role of minicomputers and even mainframe computers in corporate computing.

Workgroup computing is emerging as a way to use PCs to enhance office productivity. Instead of only speeding up the ability of individuals to write memos or calculate budgets, workgroup software enables teams of people to collaborate on projects more efficiently.

The first step in Microsoft's grand plan will emerge later this month with the introduction of "Windows for Workgroups", a new version of Microsoft's popular "Windows" that incorporates networking programs enabling each member of a group to share information, send electronic mail and schedule group meetings.

By incorporating basic workgroup functions into its Windows operating system, Microsoft aims to expand the market for workgroup computing and encourage more PC users to link their machines to networks. Currently only about 30 per cent of Microsoft Windows users are linked to networks.

But this is "just the beginning", Microsoft says. Its next move will be to launch a database program that simplifies the development of applications such as order entry and inventory tracking. These programs will set the stage for "Windows NT", Microsoft's next-generation operating system, now expected some time in the first half of 1993. This, the most ambitious of Microsoft's efforts, is designed to provide PC-like "ease of use" on company-wide computer network systems.

Yet all of this comes from a company which, despite its successes, has so far lagged behind competitors in providing software that links PCs on networks and in applications geared to more than one user. Neither does Microsoft have any experience beyond PC software which, however important it may be, lacks the maturity of programs developed for larger systems.

Microsoft faces "a boatload of competitors", acknowledges Steve Ballmer, executive vice president of sales and support. He lists Apple Computer, which already provides networking and workgroup software; Borland, with its database programs; and Lotus Development with its "Notes" program for workgroup communications. IBM and Sun Microsystems are also competitors.

The immediate obstacle to Microsoft's ambitions, however, is Novell, which commands a 60 per cent share of the market for network operating systems. To date, Microsoft is running a poor second to Novell in the networking software stakes.

None the less, Microsoft's vision is compelling. By extending the familiar easy-to-use features of Windows and not forcing PC users to adapt to new applications programs, Microsoft can provide a relatively painless path from personal computing to workgroup or company-wide computing.

It is a scheme that will have great appeal for growing companies and for a generation of computer users whose experience is based upon the personal computer. "We view workgroup computing as an evolutionary process," says Ballmer. "Users should be able to use the applications and operating systems they are familiar with, and be able to pick and choose the elements they need for their particular workgroup."

Microsoft also stresses the "openness" of its approach including connectivity to systems running other operating systems and "gateways" to existing mainframe- or minicomputer-based systems. Hewlett-Packard and Digital Equipment have been close partners with Microsoft throughout its development process, the company says.

However, with its fuselage of promises it appears that Microsoft's ultimate goal may be to become, as IBM was in the 1970s and early 1980s, the software standards setter of the 1990s. The question will be whether computer users and manufacturers are ready to accept Microsoft in that role.

Britain gets the message

A vital part of Microsoft's eagerly awaited Windows NT operating system has been developed by a small UK communications software company which now plans to sell it to the world at large.

Data Connection of Enfield, North London, is supplying universal messaging technology for the new operating system which is expected to be launched next year.

It is the only element in Microsoft's new flagship system which is being developed by a UK company. The system is Data Connection's own version of an industry standard called X.400, an important ingredient in the OSI open systems specifications. X.400 includes electronic mail, electronic data interchange, secure messaging and file transfer.

According to Ian Ferguson, Data Connection managing director, the company's DCX.400 system is the first that works well and can be installed easily by customers. Conventional electronic mail systems cannot handle document or file transfers, while electronic document interchange systems cannot handle electronic mail, he says.

Data Connection is offering the DCX.400 to companies which want to incorporate it into their own products and to corporations planning to build custom electronic messaging systems. A licence starts at around £150,000.

Alan Cane

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Cinema/Nigel Andrews

Dazzling Disney

Beauty And The Beast is Disney going Euro in the right way. The company's theme park invasion of France may have misfired, but this commando raid on French folklore has been its biggest animation success since *Snow White And The Seven Dwarfs*. $133m at the American box office; rave reviews; and learned articles in Sight And Sound about the sexual politics of fairy tales.

S.P. creeps into everything today, so no wonder this movie's heroine, the lovely Belle, has a village suitor who is unmistakably a male chauvinist pig. You can tell from his beefcake narcissism and taste in macho decor. "I use antlers in all my de-cor-A-TING!" he sings in his big number. So Belle decides to give him up, and to give *herself* up to the castle-dwelling Beast in exchange for her inventor father, held prisoner after straying innocently into his lair.

Once confined, the girl finds the B and his castle ever more appealing and so do we. There is the all-talking, all-singing double act of the Maurice Chevalier-accented candlestick and clock with dial-moustaches, supported in *tutti* numbers by the cockney teapot and yapping canine foot-cushion. Then there are the monster statues lining the stairs, folk myth's equivalent of the family portrait. Then there is the B himself, a broody thunderous hulk swagged to the eyeballs in face-concealing cloak – until (violin music please) his guard drops and love begins to twitter on the horizon.

It could have been the worst Disney syrup. Instead it is the best Disney blend of comedy and romance. We know we are in animation Heaven from the beginning, with the shifting-perspective vistas of forest and castle and the mock-Mediaeval stained-glass tableaux. The songs by Alan Menken and Howard Ashman (of *The Little Mermaid*) break into this Arcady with wit and ease. And once inside the castle, the choreography of characters and camera has a dazzling virtuosity.

Years ago I and other critics prophesied the death of paint-and-brush animation, condemned (we thought) by the modernist arsenal of animatronics, muppetry and video trickery. But the new styles have been outwitted by the old. *Beauty And The Beast* has a lived-in lyricism and a pictorial sumptuousness that none of the newer techniques could have equalled.

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Could someone out there help me with the spate of slang in modern American cinema? "The mustard's off the hot dog, you corn-fed mule, you!" barks black basketballer Wesley Snipes to white friend Woody Harrelson in *White Men Can't Jump*. What does he mean? And what about the last line of the movie: "You can put a cat in the oven, but that don't make it a biscuit." Why are these people putting cats in ovens? And what is the proverbial symbolism of hot dogs and mules?

That we still enjoy Ron Shelton's comedy about confidence-tricking sportsmen, scamming their way from one street game to the next, pays tribute to its lickety-split charm. This is *The Hustler* for basketballers. Snipes is the dancing, bouncing human spider who "sets up" the victims; Harrelson is the seeming chump pulled off the street as his partner, in game after game, to fool initially derisive opponents.

Trouble starts when our two heroes set out to fool each other, and when their womenfolk take dim views of their down-market lifestyles. Harrelson's girlfriend (Rosie Perez) is a Latino hoyden with a dentist's drill voice, yearning for glory on TV gameshows. Snipes' wife (Tyra Ferrell) is a social climber whose spouse keeps dragging her back to base camp.

Shelton wrote and directed *Bull Durham*, which did for baseball what this does for basketball: treated it as a trial of machismo for overgrown kids, in which men fool about with notions of virility while women attend to the real business of life. Ms Perez puts the ball-playing ethos in context. "Winning and losing is all one big organic globule from which you take what you want," she ear-splittingly muses, shortly before her own winner-takes-all triumph on a TV quiz show.

Ah, but who says characters must be consistent. Shelton's skill as a film-maker is to capture life messy and on the move. Edited with a feral grace by Paul Seydor, *White Men Can't Jump* never pauses even to ponder its wry message of racial togetherness. (Whites and blacks can be chums, especially when given a common enemy to fool.) Instead the film is as fast, buoyant and full of feinting rubato as basketball itself.

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BEAUTY AND THE BEAST (U)
Trousdale/Wise

WHITE MEN CAN'T CAN'T JUMP (15)
Ron Shelton

ORSON WELLES' OTHELLO (U)
Orson Welles

AS YOU LIKE IT (U)
Christine Edzard

BLUE ICE
Russell Mulcahy

Two Shakespeare plays turn up in strange guise this week. *Orson Welles' Othello* has been restored and revived 40 years after its first release. A masterpiece for some, "Citizen Coon" for others, it stars a black-faced Welles in the lead role, stomping with cast and crew from one ill-funded location to another. The film took three years to make and shuttled between Rome, Venice and Morocco. Whenever the director-star needed more money he dashed off to an acting assignment (*The Third Man*, *The Black Rose*) while his own players sat around in the sun, twiddling their Arden editions.

The result? Count me in the masterpiece camp. And camp masterpiece is the *phrase juste* for this soaring essay in movie baroque. We begin with Eisensteinian crowd geometries in a lavish funeral procession; we take a pinch of German Expressionism for Iago's hate-twisted tirades in twisty streets; we invoke Sternberg's *l'erotisme voilé* for bedroom scenes; and we plunder *Citizen Kane* itself for the crazed low angles craning from floor to ceilings.

Here Welles has one of his great inspirations. In two scenes a large oval trap is opened in the roof, silhouetting the nobles against a scudding Tiepolo sky as they gaze down on the Moor's gathering madness.

But then inspirations stumble over each other here like geese at feeding time. Rodrigo's murder is staged as a black farce in a bath-house (Welles had run out of costume money); the grief-stricken Desdemona (Suzanne Cloutier) walks away over a tiled floor patterned like teardrops; the captive Iago (superb Micheal Mac Liammoir) is hoisted in a cage up a terrifying castle wall; and everywhere the plastic lighting patterns light up the text, from the eerily lucent skyscapes to the shadows wild as Jackson Pollock paintings for Othello's spasms of jealousy.

As You Like It is a tamer affair, even though director Christine Edzard (of *Little Dorrit*) has dared to set Shakespeare's pastoral comedy in a modern-day London. Fleeing the City's temples of finance, where their elders are brokers and bankers, Rosalind and Orlando (Emma Croft, Andrew Tiernan) meet and woo in a Thameside wasteground. Jacques is James Fox in a jumble-sale coat. Touchstone is Griff Rhys Jones with a rictus grin. And Orlando's love messages carved on trees become hip-hop graffiti sprayed on the river wall.

It starts to work half an hour from the close. Here fog wreathes the characters in gentle fantasy and the words begin to charm. Before that we feel like victims of a mobile theatre experiment, moving our camp stools from one daft venue to the next as we follow a bunch of under-rehearsed actors belting it out into the void.

But the rubbish of the week prize goes to *Blue Ice*. In this thrill-free spy thriller directed by Russell Mulcahy (*Highlander*) Michael Caine plays a retired MI5 agent now running a London jazz club. He doesn't know much about music but he knows what he dislikes ("Schoenberg always struck me as being a bit of a wanker"). So he falls for the cooing cadences of US Ambassador's wife Sean Young, who gets him knee-deep in an international arms plot.

Struggling to stay alert through the two hours' traffic jam of contrivances, we are honked awake by sudden outbursts of bloodletting, bad acting and Bob Hoskins (in a short but meaningless cameo). Mr C himself contributes some sleepy-lidded charm and cockney rhyming slang. But all told, I'd rather fall down the apples and pears and break both daisy farms than sit through it all again.

Theatre

A lively look at death

Sylvia Syms and Harry Burton

Post Mortem is a short, angry, anti-war play by Noel Coward, unstaged since he wrote it on a steamer in 1930. Now The King's Head Theatre, Islington, has brought the play to life in a lucid, engaging production.

It is 1917. John Cavan dies in action in France. But his perturbed spirit stretches the moment of death into 13 mortal years. He returns to see family and friends in 1930 to look at the war from then. His idealism at death meets their compromises during the post-war years. Only one fellow officer, Perry Lomas, remembers the war: he has written an anti-war book called "Post Mortem".

The play amounts to a series of encounters: there is unfinished business with Cavan's mother and fiancée; and an awkward reunion with his army friends. The sternest test of Cavan's beliefs comes in his exchange with Lomas, a dispirited agnostic inveighing against an English conspiracy to cover over the war. When Cavan appears, Lomas is about to kill himself: "Don't put me off, there's a good chap, it's all I've got to look forward to." All of Coward is in this scene: his despair of English class, his horror at English following of rules, and his Swiftian love of people as individually pleasant but collectively idiotic.

The plot lies between Tennyson's *In Memoriam* and *Truly, Madly, Deeply*. The former asks "Do we indeed desire the dead should still be with us at our side?", the other plunges into afterlife drama. Here, Coward manages to imbue the creepiness of Cavan's visitation with the social swing of a visit.

The wit erupts occasionally: "Are they in love?" asks Cavan. "I don't know – they go to the opera together," his mother replies.

Richard Stirling's direction and Mark Friend's design for this small theatre both work well. Steven Pacey acts Lomas superbly, a model of unquiet resolve; Harry Burton as Cavan keeps pace with the demands of the part, but looks unmoved and unmoving. Opposite him, his father, Sir James "Jumbo" Cavan (Roy Sampson), proprietor of *The Mercury* is a horror of hypocrisy.

The tricks of time resemble T.S. Eliot's work in the 1920s. There are spots of thoughtful lyricism: "Youth is a long way away, it doesn't matter any more . . . Life's a joke with no one to laugh at it." Really, life's a slow way of dying.

Andrew St George

Post Mortem, The King's Head, Islington, London for six weeks (071 226 1916)

Ibsen at its best

This *A Doll's House* is an exemplary Ibsen production. The Wild Iris Theatre Company could not have introduced themselves better when they staged it last year at the tiny D.O.C., in Kentish Town – before taking it to the Ibsen Festival in Norway. Now, the larger Bridge Lane Theatre will let many more theatre-lovers savour it.

It is the best Ibsen I've seen since the Young Vic's *Enemy of the People*: far above the latter's current *Rosmersholm* (over-slick, though well-intentioned), better than the National's uneven *Peer Gynt* or their recent *Hedda* (strong but flashy). This *Doll's House* is played quite straight, in fine, humane detail and faultlessly paced. The result is that we can't patronise the play as "period-bound", just an *Ur*-feminist exhibit; on the contrary, we are seized by the story and the characters, amused, moved and even enlightened.

All praise to the director Polly Irvin: her directorial hand never obtrudes, but the quality of the ensemble-acting must owe a sizeable debt to her unwinkingly thoughtful care. The designs by Gabrielle Sabran and Colin Hill are no less apt and self-effacing, and thanks to the choreographer Sue Glasser the heroine Nora's Christmas-party tarantella – potentially an embarrassment – boasts a free spirit's flair.

Famously, Nora is the first theatrical Wife who Walks Out. Clever Sophie Thursfield makes her disarmingly transparent, provincial and slightly ditzy, where modern fashion expects cruelly downtrodden nobility of soul. That gives her smug husband Torvald (Timothy Bentinck) a decent excuse, however insufficient, for treating her as a dim pet. Which is dramatically all to the good; and it also means that when the time comes for the worm to turn, she can execute the turnaround with scathing simplicity. Their final face-off represents both sides fairly, and is genuinely wrenching.

Though Miss Thursfield is admirable, Nora is a treat of a role. Bentinck achieves a greater miracle with his Torvald: neither crudely domineering nor a sentimental twit (the usual readings), but a subtle, vividly detailed study of a young-middle-aged Victorian husband whose paternalism is a matter of unreflective inheritance. We can't but feel for him too, when Bentinck reveals him in such sympathetic depth. On a shorter lead (with only two really dense scenes to explore), Thane Bettany matches him as the doomed medic Dr Rank, dry-eyed, eloquently gentle and uncomplaining.

Those three performances are already decisive reasons for seeing the Iris *Doll's House*. Christopher McHallem's Krogstad, the unhappy "villain" of the piece, and Julia Lloyd Barrie's destitute, widowed Christine – his lost sweetheart, Nora's stiff-upper-lipped old friend – supply two more. If each of them is a degree nearer caricature than need be (a bit of surplus cringing from McHallem, an excess of spinsterly grit from Barrie), they contrive nonetheless to reunite with tremulous spontaneity.

That is beautifully calibrated, well beyond the schematic lines that Ibsen gave them; it makes more of the under-written subplot than ever seemed likely. But don't take my word for it: just *go!* It may be several years before Ibsen is so well played again in London.

David Murray

A Doll's House, Bridge Lane Theatre, Battersea, SW11, until 24 October

Concert/Andrew Clements

Enlightened, not shackled

Any London concert involving Frans Brüggen is an event, whether he brings his own Orchestra of the 18th Century or conducts the Orchestra of the Age of the Enlightenment. On Tuesday he opened the OAE's new season with an all-Bach programme of marvellous rich invention and elegance. If there were any agnostics who still required evidence that period-instrument playing need impose no interpretative shackles these flexible, warmly expressive performances must have furnished it.

The substance of the evening was two of the orchestral Suites, the First and Fourth. Neither was conceived in grand, sonorous terms but as sequences of lithe, sharply characterised movements full of neat wind figuration (from the oboes in particular) and carefully marshalled, airy strings. Brüggen keeps his players on a loose rein, confident enough in their good sense to leave much of the orchestra to make its own way while he concentrates on shaping a musical strand or watching over its progress. His buoyancy and freshness are infectious; even Bach suites, familiar enough now in their authentic garb, emerge newly illuminated.

A conductor was not required for the E major Violin Concerto; the soloist Elizabeth Wallfisch directed it herself. Her playing was neat and carefully detailed, but the effect was just a little too monochrome, especially alongside the other glowingly coloured performances. Brüggen himself also explored three movements from Bach cantatas, each with another existence in an instrumental work. The Sinfonia from *Geist und Seele wird verwirret* seems to have begun life as part of an organ concerto, that for *Wir danken dir, Gott, wir danken dir* is a parody of the prelude from the E major violin sonata; both have virtuoso organ obbligatos, expertly dispatched here by John Toll. The sonatina from *Gottes zeit, ist die allerbeste Zeit* proved to be a strange little funeral study, with pairs of keening recorders and viole de gamba; it made a sharp contrast to the grander music all about it, a moment of intimacy in an evening of extrovert accomplishment.

Orchestra of the Age of the Enlightenment, Queen Elizabeth Hall; sponsored by Charterhouse plc

INTERNATIONAL ARTS GUIDE

■ ATHENS

Concert Hall This month's programme includes a concert by the Athens State Orchestra tomorrow; a Beethoven day on Sat featuring a piano recital by Bruno Leonardo Gelber and a performance of the Ninth Symphony by the Nurnberg Symphony Orchestra; and a Greek music cycle opening on Mon with a programme of concertos for folk instruments and chamber ensemble. On Oct 17 and 18, La Camerata plays concertos and symphonies by Mozart and Boyce (722 5511)

■ BOLOGNA

Yuri Simonov conducts an orchestral concert at the Teatro Communale tomorrow and Sat, featuring Strauss' Four Last Songs (Alexandra Marc) and Stravinsky's complete Firebird. Mon: I Virtuosi di Praga. Oct 16, 17: Viktoria Mullova plays Bartok's Second Violin Concerto. Oct 23: Cecilia Bartoli song recital. Oct 24, 25: Christian Thielemann conducts Strauss. Oct 29, 30: Sylvain Cambreling conducts works by Debussy and Fauré. The opera season opens on Nov 28 with Götterdämmerung (529999)

■ BRUSSELS

Palais des Beaux Arts 20.00 José van Dam sings Winterreise, accompanied by Valery Afanassiev. Tomorrow: Pierre Bartholomée conducts the Liège Philharmonic Orchestra in works by Milhaud, Prokofiev and Berlioz, with violin soloist Miriam Fried. Sun and next Tues: Paul Daniel conducts the Orchestra of the Monnaie in works by Ravel, Jonathan Harvey and Berlioz. Next Fri: Nikolaus Harnoncourt conducts the Chamber Orchestra of Europe (507 8200)

■ CLEVELAND

Severance Hall 20.00 Libor Pesek conducts the Cleveland Orchestra in Mozart's Piano Concerto No 25 (Garrick Ohlsson) and Suk's Asrael Symphony (repeated tomorrow and Sat). Pesek also conducts concerts next Tues, Thurs, Fri and Sat. Nov 4 and 7: Christoph von Dohnanyi conducts Die Walküre (231 1111)

■ FLORENCE

The next series of concerts at the Teatro Communale (Sat, Sun, next Wed and Thurs) is conducted by Alessandro Pinzauti, and features Beethoven's Third Piano Concerto (Maria Joao Pires) and Mendelssohn's Scottish Symphony. Sylvain Cambreling conducts the following programme (Oct 21, 22, 24, 25) and Georges Prêtre conducts four concerts at the end of the month (277 9236)

■ GENEVA

DANCE
On Sat, the Ballet of the Grand Theatre gives the first performance of a new work by Paulo Ribeiro, as part of a double bill with Jiri Kylian's Stepping Stones. There are six more performances next week (311 2311)
CONCERTS
Modern Jazz Quartet gives a concert in the Victoria Hall on Sun at 17.00. Next Wed: Günther Herbig conducts the Orchestre de la Suisse Romande. Oct 25: Theodor Guschlbauer conducts music by Schumann, Chopin, Ravel and Roussel (311 2511). Next Wed in Grand Theatre: Thomas Hampson song recital (311 2311)
THEATRE
Théâtre de Carouge has Molière's L'École des Femmes daily till Sun. Oct 17-23: Monique Lachère's play Raspoutine (343 4343)

■ GOTHENBURG

Konserthus 19.30 Finn Rosengren conducts the Gothenburg Symphony Orchestra in works by Per Arvidsson, Honegger and Beethoven, with violin soloist Dong-Suk Kang (repeated tomorrow at 18.00). Next week: Walter Weller conducts Janacek, Mozart and Kodaly. Oct 28, 29: Neeme Jarvi conducts Sibelius and Stenhammar (167000)

■ LONDON

THEATRE
● Rosmersholm: Francesca Annis and Corin Redgrave in Ibsen's drama of thwarted passion. Till Oct 31 (Young Vic 071-928 6363).
● Medea: Diana Rigg as Euripides' witch-wife bent on revenge. Till Oct 24 (Almeida 071-359 4404).
● Philadelphia, Here I Come!: Brian Friel's affectionate 1964 comedy about an Irish emigrant (Wyndham's 071-867 1111).
● Six Degrees of Separation: Stockard Channing repeats her award-winning role from the New York production of John Guare's play (Comedy 071-867 1111).
● From a Jack to a King: witty version of Macbeth's climb to the top, set in the world of rock bands and Sixties songs (Ambassadors 071-836 6111).
● For ticket information about all West End shows, phone Theatreline from anywhere in the UK: Plays 0836 430959 Musicals 0836 430960 Comedies 0836 430961 Thrillers 0836 430962
OPERA/DANCE
Covent Garden Tomorrow sees the opening night of Trevor Nunn's production of Porgy and Bess, first seen at Glyndebourne in 1986. Andrew Litton conducts this revival with Willard White and Cynthia Haymon in the title roles (also Oct 12, 15, 20, 24, Nov 3, 5, 7). Tonight's performance is I Capuleti e I Montecchi with Anne Sofie von Otter (also next Wed). Sat afternoon: Fidelio (also next Tues and Sat). Sat evening: Tosca. Next Fri: Carlo Bergonzi farewell recital. Oct 23: revival of Otello with Domingo. Oct 22: revival of Royal Ballet production of Swan Lake (071-240 1066)
Coliseum The ENO repertory consists of Jonathan Miller's production of Don Giovanni (tonight and Sat, runs till Nov 5). Nicholas Hytner's production of La forza del destino with Josephine Barstow (tomorrow and Mon, runs till Oct 22) and Die Zauberflöte (revival opens next Wed). Wozzeck is revived on Oct 29 (071-836 3161)
Sadler's Wells Glyndebourne Touring Opera's season runs till Oct 24, with the next performance (Le nozze di Figaro) on Sat (071-278 8916)
CONCERTS
South Bank Centre Highlights of the next week include three Tennstedt concerts with the LPO (tonight, next Tues and Wed), a piano recital by Bernard D'Ascoli on Sun, Elgar's The Kingdom conducted by Andrew Davis on Mon, Eartha Kitt in concert next Fri and a Herbert Howells centenary concert next Sat. Oct 18: Andrzej Panufnik memorial concert. Oct 19: Mackerras conducts the Orchestra of the Age of Enlightenment. Oct 20: Radu Lupu plays Brahms' First Piano Concerto. Oct 21 and 25: Ashkenazy conducts the RPO. Oct 29: Alfred Brendel recital (071-928 8800)
Barbican André Previn returns to the LSO tonight and on Sun to conduct works by Druckman, Mendelsson and Shostakovich. Witold Lutoslawski conducts the Guildhall Chamber Orchestra in a programme of his own music tomorrow lunchtime. Tomorrow evening: Budapest Symphony Orchestra. Sat: Rattle conducts the CBSO. Sun afternoon: Mitsuko Uchida recital. Next Wed: Gershwin concert. Next Thurs: Colin Davis conducts the LSO. Next Fri: Rita Hunter sings Wagner. Next Sat: Harnoncourt conducts the Chamber Orchestra of Europe (071-638 8891). Next Tues in Westminster Central Hall: John Eliot Gardiner conducts Beethoven's Ninth Symphony (071-379 4444)

■ MADRID

The new season of concerts at the Auditorio Nacional de Musica opens next Tues with a concert by the Madrid Civic Choir, featuring music by Spanish composers. Next Thurs: piano recital by Alfonso Montechino. Next Fri, Sat, Sun: Malaga Symphony Orchestra plays works by Copland, Strauss and Rimsky-Korskov (337 0100)

■ ROTTERDAM

Tomorrow and Sat at De Doelen, George Cleve conducts the Rotterdam Philharmonic Orchestra in works by Mozart and Nielsen. Next Wed and Thurs: Gilbert Varga conducts works by Richard Strauss and Respighi (413 2490)

European Cable and Satellite Business TV

(all times CET)

MONDAY TO FRIDAY

CNN
2000-2030, 2300-2330 World Business Today – a joint FT/CNN production with Grant Perry and Colin Chapman

Super Channel
0700-0710, 1230-1240, 2230-2240 FT Business Daily
0710-0730, 1240-1300 (Mon, Thurs) FT Business Weekly – global business report with James Bellini
0710-0730, 1240-1300 (Wed) FT Media Europe
0710-0730, 1240-1300 (Fri) FT Eastern Europe Report
2240-2248 FT Report

Sky News
2030-2100, 2230-2300 FT Business Weekly

SATURDAY

CNN
0900-0930, 1900-1930 World Business This Week – a joint FT/CNN production

Super Channel
0830-0900 FT Business Weekly

Sky News
1130-1200, 1730-1800 FT Media Europe

SUNDAY

CNN
1030-1100, 1800-1830 World Business This Week

Super Channel
1900-1930 FT Business Weekly

Sky News
0130-0200, 0530-0600 FT Media Europe
1330-1400, 2030-2100 FT Business Weekly

FINANCIAL TIMES
Number One Southwark Bridge, London SE1 9HL
Tel: 071-873 3000 Telex: 922186 Fax: 071-407 5700
Thursday October 8 1992

An unelected president

ONE PARAGRAPH in Mr Chris Patten's speech yesterday to the Hong Kong Legislative Council (LegCo) was clearly directed at *editorial writers in the UK. The* pace of democratisation in Hong *Kong, he said, was constrained by* international agreements and "the implacable realities of *history*, geography and economics"; and this fact was better understood within the territory than by "those who would like the people of Hong Kong to be the heroic pawns of their own doubtless well-meaning preconceptions".

What this means is that, since Britain is committed to returning Hong Kong to China in 1997, there is no point in setting up a model democracy there between now and *then, only to see* it dismantled, with much acrimony and perhaps even bloodshed, *thereafter. Every*thing that is done in these last five years has to be done with an eye to its likely consequences in the years beyond.

So much is common sense. But on that observation can be founded two radically different policies. One, favoured by Mr Martin Lee's United Democrats (UDHK) who won most of the *directly elected seats* in last year's LegCo elections, is to introduce as *much democracy as possible, in* the hope that China will shrink *from the odium of dismantling it* when it comes to the point. The other, favoured until now by the British government, is to try and persuade China *that* more democracy would be a good idea, but refrain from implementing any changes China does not approve.

Middle way

In yesterday's speech Mr Patten attempted to chart a middle way between those two approaches. On relations between LegCo and the Executive Council (ExCo) he announced measures to be adopted now, without reference to China. But on the *method* of electing the next LegCo in 1995 he made "*proposals*", which "*will* require serious discussion with Peking". Judging by the prompt and unfavourable reaction of the New China News Agency, the discussion will certainly be difficult. Whether it will be serious on the *Chinese side remains to be seen.*

Mr Patten knows well that the *Chinese will reject*, once again, Britain's proposal to increase the number of directly elected seats beyond the 20 (out of 60) so far agreed.

But he has devised an alternative which seeks to reach a similar result by a more convoluted route, respecting the letter of Beijing's Basic Law. This is to broaden the *franchise for* the "functional" constituencies so that they embrace *the entire working population*, and to ensure that the "election committee" (*which under the* Basic Law will elect 10 LegCo members) *is itself composed of* elected people.

Future tense

But what does he do if China rejects this package? Taken at face value, his speech offers no fall-back position. Yet the proposals *for the new constituencies* are spelt out in considerable detail in an "*illustrative pamphlet*", with copious use of the future tense. *And at his press conference* Mr Patten let fall the remark that "if China wants to change *it back*, then it won't lose anything in its own terms". That suggests he is ready to override a Chinese veto if necessary. If so, his approach is much nearer to that of Mr Lee than appears at first sight.

Meanwhile, he has angered Mr Lee's supporters by refusing them *seats on ExCo, which they hoped* to turn into a quasi-cabinet drawn from LegCo and reflecting last year's election results. Mr Patten rejected this, insisting on the separation of powers. He himself is handing over the chairmanship of LegCo to an elected *president*, and promises in future to be "*answerable to" LegCo as head of the exec*utive. He is even instituting a *kind of "governor's question* time". The role he defines for himself is thus half way between that of a British prime minister and a US president. Yet he is neither elected by the people nor removable by any representative body.

That will also be true of his Chinese-appointed successor in 1997. *Evidently* he believes there *is* no chance China would accept an elected executive, but some chance it can be persuaded to work with a democratic legislature if he, and the Hong Kong politicians, can get such a system up and running over the next five years. It is a long shot, but a bold and *imaginative* one, which deserves to succeed.

Realism and the Eurofighter

A COMPLETE breakdown of collaborative arrangements for the European Fighter Aircraft is now a distinct possibility. That would present the British government with *a formidable dilemma*. It would be loath to abandon the *project at this stage* and buy another fighter. But it also would – or *should* – think twice before committing the UK to undertaking EFA production on its own.

The German government is clearly set on having no part in the aircraft the UK wants, and the other partners – Italy and Spain – are at best hesitant. In an atmosphere of political and monetary *disarray in Europe, there is* a temptation for Britain to say boo to the rest and press ahead on its own. The Ministry of Defence has begun testing the waters to see if a solo programme is politically acceptable. For UK manufacturers it may look like the best solution of all.

Britain could build it. It could save the extra costs involved in *spreading production work among* partners in different countries. It could appoint a *prime contractor* and lessen the risk to the taxpayer. But a *UK-only aircraft* would still, almost certainly, turn out more expensive because of the shorter production run. The RAF's requirement is 250 aircraft, less than a third of the original EFA programme. Whether the project was worthwhile would depend – as with the Challenger 2 tank which the UK ordered from Vickers last year – on winning export orders from the third world.

Inadequate alternatives

The less competitive EFA's price becomes, the less objection there will be to an off-the-shelf alternative such as the US F-15. Britain has, after all, bought American fighters before. But the only realistic cheaper alternatives to EFA are all aircraft of 1970s design. The F-15 has a successor, the F-22, but it is well outside the UK's targets for size, weight and cost. EFA's closest European rival, the French *Rafale, was designed for different* requirements and costs just as *much*.

Britain insists on an aircraft capable of defeating any *likely* opposition, including – and here its perceptions stand in sharp contrast to Germany's – in overseas military operations. But it has more than military reasons for wanting to hang on to EFA. The UK has more to lose in terms of strategic industrial capability than the other three partners. The widely-touted estimate of 40,000 *UK jobs depending on the pro*gramme may not be overstated.

BAe faces void

The collapse of EFA would be the heaviest blow to the industry since the TSR 2 strike aircraft was cancelled by the Labour government in 1965. That project was eventually replaced by the tri-*national Tornado, but no such sat*isfactory outcome can be expected to follow EFA's cancellation. The alternative collaboration partners, the French and the Americans, both have their own agendas for the time being. A future Anglo-French fighter is mooted, but would not materialise until well into the next century. Before then British Aerospace (as if it did not have enough troubles already) would be facing a void at the core *of its profit-making military activi*ties.

The UK authorities and *the* industrial partners must take part of the blame for *the project's cur*rent state. Britain helped to alienate German opinion by pushing its way into leadership of all the programme's main elements. The Eurofighter consortium of airframe manufacturers also made a clear tactical blunder in April by pitching its price for the production phase too high. Mr Volker Rühe, the German defence minister, has since staked his considerable political ambitions on his decision to reject the aircraft.

However, Britain still has a strong bargaining position. EFA may look precarious without Germany, but without Britain, Germany's counter-proposal of a new collaborative fighter – dubbed the EFA Lite – looks a non-starter. The UK's best interest is to try its utmost to rescue EFA collaboration at least with Spain and Italy, even if that means making some compromises in the aircraft's performance. If collaboration was judged to be imperative in the mid-1980s – when the cold war persisted and defence *spending* was at its peak – it is hard to see how going it alone can make sense now.

ECONOMIC VIEWPOINT

What I would do as chancellor

By Samuel Brittan

In the long run we are all dead – Lord Keynes (circa 1921).
Keynes is dead and we are living in the long run – Participant at a Keynes conference, *1991*.

Saying what one would do, if one were chancellor, is a form of journalism best indulged in one's 20s. We are where we are through a complex historical process; and there are no hitherto unused monetary indicators waiting to be pulled out of a hat, the mere announce*ment of which will restore credibil*ity. Some so-called market commen*tators are looking in a dark room* for a black cat which is not there.

Moreover, the whole 10-point programme attitude of mind is misguided. For it assumes that there are a few technocratic gimmicks by which a few clever people at the centre could point a painless way to growth without inflation. It is this rather than any specific doctrine, which is the malign aspect of Keynes's legacy.

What I object to most in the programmatic approach is the absurdly over-inflated role it gives to government. *The political philosopher* Michael Oakeshott made a distinction between *the state* as an enterprise association, with specific aims and purposes, and the state as a civil association, which provides a framework of law and institutions in which individuals, companies, voluntary bodies and many other groups pursue their own purposes.

Not only is a civil association a much more congenial idea; it is also less unsuccessful. The enterprise *association reached its highest form* of development in the Soviet five-year plans. These collapsed, together with more moderate Swedish type ideas for reforming society from the centre.

No government has the knowledge – much of it unquantifiable – which would be required for such ambitions. Yet political discourse is still in the language of the enter*prise association. Even radical-right* Conservative governments believe they have to do something called "promoting growth".

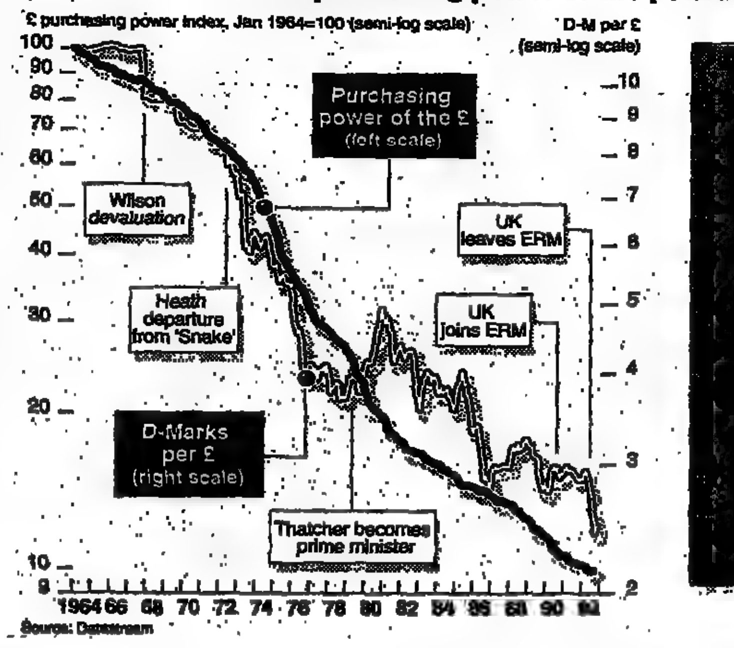
Having said all this, I will swallow my words with a 10-point non-plan. This is partly because I have been asked to do so and partly because this is a journalistic way of encapsulating a few thoughts, acceptable if very sparingly used. *The intention is to improve the framework of rules and institutions of civil society* rather than to ask for implausibly heroic political leadership.

The reason why the British found it so difficult to live with the exchange rate mechanism has nothing to do with the alleged misdeeds of the Bundesbank or even the entry parity. Nor has it much to do with *the personal qualities* of the chancellor. The British are just very addicted to the inflationary habit, which they find so difficult to kick.

Politicians and commentators have evinced a curious born-again belief in fiscal activism. They want, mostly unspecified, public expenditure cuts. But of course these must not affect infrastructure, investment, or any other area where they are actually likely to be made.

It just happens that on the evidence of the past two decades, monetary and exchange rate policies are far more potent weapons against inflation than fiscal policy. There are many reasons for wanting to balance the budget once economic activity is on a sustainable trend level. But with free capital markets there is an extremely loose link between the budget deficit and either inflation or interest rates.

Domestic & external purchasing power of the pound



Source: Datastream


Keynes: malign aspects of his legacy

The main reason why politicians are turning to fiscal policy is that for the moment tight money *seems* to be politically more unpopular. In *addition – as we see from the mem*oirs of the Callaghan period – min*isters find it much easier to dispute* with each other on spending programmes than on monetary or exchange rate policy, which is left to a tiny inner group.

Having got all this off my chest, here is my 10-point non-programme:

Some market commentators are looking in a dark room for a black cat which is not there

● 1. *There should be a standing* commission on laws and business practices which make *it* difficult to reduce inflation, or increase the costs of so doing. My own most important articles have not been my running commentaries on macroeconomic policy, but the occasional pieces I have written on practices such as upwards-only rent reviews of business rents or the *insidious effect of treating house* purchase as a foolproof investment for gain rather than a way of providing shelter. The commission should avoid an indiscriminate onslaught on indexation, but probe notions such as the annual wage *round, the rate for the job* and nationwide bargaining.

● 2. *There should be a thorough* investigation of the events leading up to the humiliation of Black Wednesday, when the UK ignominiously left the ERM. This should go well beyond the ritual calls for the resignation of the chancellor and look at the whole machinery of Treasury and Bank of England advice which has guided successive chancellors, *and which would* deprive key officials of the excuse *that they cannot answer back.*

● 3. There is no point in just calling for an independent Bank of England, if this means just giving slightly more power to the existing Bank. Indeed no central bank has covered itself in glory in recent weeks. *What is required is a new* Bank of England Act which would *give the Bank specific objectives*, for which it could be held accountable, and which would not prevent it being ultimately merged with the European Central Bank envisaged in the Maastricht treaty. Once the new institution is established under a new act it would be given sufficient independence to put monetary *policy at one or two removes from* the political expediency of those concerned with managing party conferences.

● 4. The government should declare its aim of rejoining some version of the exchange rate mechanism when the time is ripe. This is deliberately harking back to the *Thatcher formula*, with the *big dif*ference that the aim would be to rejoin rather than find excuses for not so doing. Moreover the discussion should be open and above board without the "I must prevail" attitude of the former premier.

Those official advisers – not all *that thick on the ground – who* seriously favour returning, suggest two conditions. *The first is* that German interest rates should be seen to be moving clearly downwards; in fact German money market rates have already fallen by nearly one percentage point, much more than the official Lombard *rate. The second is that the UK* should be clearly emerging from recession. *I am more worried about* this second condition, the fulfilment of which will remain a matter of opinion. I would rather just say that the UK should rejoin the ERM when German interest rates are over the unification hump. And preferably *within two years.*

I can see no point in massive spending cuts or tax hikes in a recession, whatever the 1981 mythology

Some medium-term targets (% change)

	Nominal GDP*	GDP deflator*	Real GDP*
1991	4	6	(-2)
1992	4	5	(-1)
1993	4½	3	(1½)
1994	4½	2½	(2)

* At factor cost
Source: adapted from Goldman Sachs

● 5. In the meanwhile there should *be a broad band exchange rate* objective. The difficulties of German reunification make the D-Mark target on its own temporarily difficult. On the other hand the weakness of the dollar distorts the sterling index too. So I would *temporarily settle for some kind of* average between the two.

The chart illustrates how close the relationship is between the internal and external value of the pound. But it is a medium to long-term one. For instance, inflation could slow down in the 1980s, *even though* the pound was falling because there had been an earlier *sterling overshoot*. But as the slide went on, it was inevitable that sooner or later it would find its way into domestic inflationary pressure.

It is the insidious depreciation of sterling, year after year, which feeds into inflation rather than the short periods of intense pressure which hit the headlines. It is much more important that sterling should remain in the same broad band (or higher) over the next few years than exactly how low it falls in the next few weeks.

● 6. There should be an objective *for total domestic* spending, measured approximately by my old friend, *nominal gross domestic* product. The target path I have suggested is based on *projections* by the investment bank Goldman Sachs made when the UK was still in the ERM. The idea is to ensure sufficient demand to maintain economic growth, but only if inflation continues to come down.

It is this direction which matters rather than highly fallible targets for intermediate measures of money, credit and the like. The key *relationships are so unreliable and* change so frequently that they *should be changeable at the discre*tion of the Bank of England, or whomever is operating monetary policy. It would be a crass mistake to centre policy around intermediate objectives which will carry little conviction.

● 7. Under normal circumstances that would be that. But in view of the breakdown of confidence a separate target path is needed for infla*tion itself, in terms not* of the ridiculous Retail Prices Index but some underlying measure of *inflation of* which the GDP deflator is an example. If you have a target path for nominal GDP and for inflation, you implicitly have a projection for real growth as well. But the latter is residual and cannot easily be influenced by government.

● 8. Interest rate policy would be *governed by points 4 to 7*. Meanwhile, I can see no point in massive *public spending cuts or tax* increases in a recession, whatever the mythology of 1981. Public spending should be curbed sufficiently to secure a balanced budget in the longer term.

● 9. Much more important is the breakdown of public spending – not between production and con*sumption, which is a statistical* artefact – but between purchases of goods and services, inflationary pay increases and cash transfers. A freeze of all public sector wages would repeat the cardinal sin of all previous incomes policies in ignoring supply and demand in particular labour markets. On the other *hand a simple freeze in the public* sector *wage bill*, would make it all too easy to carry on with a conventional wage round at the cost of dismissing public sector workers. The freeze must operate at the level of average pay per head.

● 10. To achieve the maximum realism with a minimum of hardship, social security needs to move humanely, but uncompromisingly towards selectivity. To be blunt, future increases in pensions and child benefits should go to those who need them rather than wastefully distributed all round.

What would happen if there were conflicts between the nominal GDP, *exchange rate and inflation objec*tives? We would be doing extremely well if any of them were taken seriously enough for conflicts to arise. In any case I would not last long as chancellor in any conceivable British cabinet to have to resolve them.

BOOK REVIEW

No magic formula

JAPAN'S GLOBAL REACH:
The Influences, Strategies and Weaknesses of Japan's Multinational Companies
By Bill Emmott
Century, £18.99, 244 pages

At Nissan's UK plant, carpet pieces are ordered, made, delivered and fitted to *Micra cars within just 42* minutes. The average time a Euro*pean-made part spends in stock is* 1.6 days, compared with the industry average of 20 days. These and countless other facts about the Sunderland plant are surprising, like the lists of things the Japanese own – Firestone, the Exxon Building, Bush House, Aquascutum, Columbia Pictures ... Gosh, how do those Japanese companies do it? There must be something special *about them.*

Well, no. At least not according to *Bill Emmott, business affairs editor* of The Economist. His book is about *the remarkable* expansion of Japan's companies into multinationals during the *1980s. His thesis* is that the Japanese are simply taking advantage of economic and business phenomena which have been seen before, such as in the expansion of American companies into Europe. Japanese companies have no magic formula. They do not take a uniform approach and make plenty of mistakes.

A former Tokyo correspondent and author of a previous book about Japan entitled The Sun Also Sets, Emmott is an authority on the subject. He is good at shattering myths and deflating prejudices. He tells us that Japanese factories abroad use a wide range of suppliers and most of them are not Japanese-owned; that most Japanese expatriates do not send their children to Japanese schools; that Japanese methods can be emulated by non-Japanese companies.

Japan has been doing a good job of demystifying itself lately, with its collapsing stock market and stutter*ing economy. But Emmott's points* are all still useful in view of the passions stirred up by Japanese presence overseas. Emmott correctly attributes much criticism, especially on the issue of domestic content of US-made cars, to prejudice which is not directed at foreign investors of other nationalities. He argues that the overseas operations of Japanese companies are more truly Japanese if they do not import parts. Their "lean production" methods demand a reliable network *of suppliers close at hand. Only in* this way can they bring productivity towards Japanese levels. If parts are made domestically, it is irrelevant whether the suppliers are Japanese-owned.

Emmott is also no doubt correct in saying that "Japanese 'superiority' is mighty similar to the sorts of superiority identified among American multinationals in the past". Like American companies investing abroad in the 1950s, Japanese companies, on average, appear to have the best operating methods. But this does not take us very far. This is where this book falls down. It tells us what is not happening, and not new. It is not as illuminating about what is.

The book's structure does not help Emmott to develop a picture of Japan's global reach. Four "case-studies" of Japanese expansion are interspersed in no obvious logical manner with general chapters which analyse the results of an extensive survey, conducted by the author, of Japanese companies with operations in the US, *Britain and* the continent. Then, Emmott *departs from the book's subject and* devotes the final chapters to a rambling look at the future of Japan and even the world, without closely relating his prognostications to Japan's multinationals.

The full survey, including questions on employment, productivity, *local content, management methods* and expatriate life, is published in *appendices. The results are gener*ally useful if unsurprising. But some respondents' comments provide tantalising glimpses, such as that of an American employee of a software company who says: "Their business practices are reminiscent of the 17th-century shogunate."

Other controversial Japanese management techniques are not fully addressed. Something unusual *is happening when a former Sony* employee in Wales writes a letter to *the FT on "shadowing" – the prac*tice of having a Japanese employee looking over the shoulder of local staff – and says: "If the Japanese are happy to lead a way of life that to us is insane, then good luck to them." Yet this practice is dismissed by Emmott with "there is nothing unusual about Sony's shadowing policy ... nor is there anything especially sinister about it". Perhaps, but an examination of Japan's global reach needs deeper discussion of companies' practices. Why do companies have "shadows", and what do they do? Given his attention to particular examples, Emmott should explore such questions in detail.

Though the book contains much interesting material, the case-studies – of car makers, Bridgestone's purchase of Firestone, the forays into Hollywood, and London's financial markets – do not get under the skin of Japan's adventurers abroad. This is perhaps because the author has already decided that there is nothing much *new about the phenomenon of Japa*nese investment overseas – and *because of his declared intent to* remain "agnostic".

Alexander Nicoll

A week of woes batters the bunker

Citicorp is reeling from the surprise resignation of its president and poor earnings forecasts, writes Alan Friedman

The executive suite at Citicorp, remarked a former member of the bank's staff a few hours after the surprise resignation on Monday of Mr Richard Braddock, Citicorp's president, "is beginning to resemble a bombed-out bunker".

While unkind, the description appears increasingly apposite as the battle scars left by huge loan losses, management shake-ups and an unusual amount of regulatory attention become apparent. Still left standing – although only just, in the view of many on Wall Street – is Mr John Reed, Citicorp's embattled chairman.

It has been quite a week for the bank that ranks as America's biggest, with total assets of $219bn. It has also proved one of the worst weeks for Mr Reed since he took over as chairman and chief executive eight years ago.

First came Mr Braddock's resignation, which has left banking analysts baffled. Citicorp's president was not only seen as Mr Reed's heir-apparent, but also as his closest friend and collaborator inside the bank. An hour later, the bank disclosed that its third-quarter earnings would be hit by large write-offs, including $870m in the consumer division. This comes on top of its well-publicised bad debt problems in the property market. Third-quarter net earnings, the bank said on Monday, would be no higher than 13 cents a share, or about half the figure many analysts had expected.

The bank, which has been scrambling this year to bolster its capital by disposing of assets and issuing stock, picked a bad time to announce Mr Braddock's departure. Today, Morgan Stanley, the investment bank, will meet institutional investors to begin promoting a $650m preferred stock offer for Citicorp. Wall Street observers also believe the bank is planning an offer of up to $1bn of ordinary shares further to strengthen its capital base.

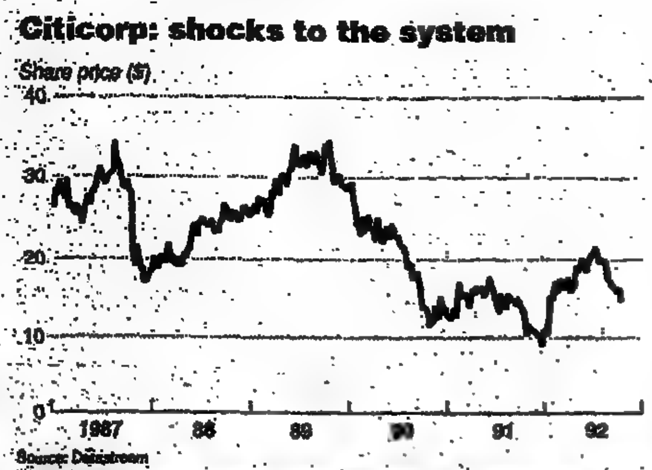
After Monday's announcements, Citicorp's share price fell by 5 per cent to $14⅝, bringing the overall fall to almost 35 per cent over the past 60 days.

The slide in the share price appears to stem partly from criticism by US bank regulators. In August regulators forced Citicorp to reduce its previously reported second-quarter earnings by $28m because the bank had overstated the value of its mortgage-servicing business.

At the same time it emerged that the Federal Reserve and Office of the Comptroller of the Currency (OCC) had also pressed Citicorp to sign a memorandum of understanding to accept closer oversight by the regulators. Yesterday Citicorp disclosed that the restrictions include a ban on new acquisitions or adding to assets without regulatory approval.

Last month, in an embarrassing leak of a report from the OCC, criticism of Citicorp's mortgage business was detailed, including allegations that there were serious management and credit-quality problems at the bank.

Citicorp: shocks to the system




Reed: still standing, but only just, say many on Wall St

> **'John Reed is on the road a lot. That means a lot of the time Citicorp is being run by committee'**

Despite these difficulties, Citicorp appeared to be back on the road to recovery during the second quarter. But persistent bad debts in the property market as well as the latest profit forecasts have caused Mr Tom Hanley, senior banking analyst at First Boston, the investment bank, to slash his 1992 full-year net earnings estimates from $218m, or 60 cents per share, to $73m, or 20 cents a share, and 1993 estimates from $728m, or $2 per share, to $546m, or $1.50 a share.

The bank's prospective underlying financial performance thus seems weaker than it did a few months ago. Its most recent return on assets, released on June 30, was 0.30 per cent – about half the average for the US banking industry. But it is not merely the bank's financial performance that has attracted negative attention from Wall Street: observers have been angered by the bank's failure to offer more than an anodyne explanation for Mr Braddock's departure.

Mr Raphael Soifer, a bank analyst at Brown Brothers Harriman & Company, the investment bank, has noted that Mr Braddock's departure "raises a lot of questions about the management of Citicorp". The decision by Mr Reed not to appoint a successor has compounded concerns. "As we all know, John Reed is on the road a lot. That means a lot of times Citicorp is being run by committee, which doesn't make a lot of sense to me."

Mr George Salem, of Prudential Securities, put it more bluntly. It was ironic, he said, that Mr Braddock should be leaving the bank "because Braddock was a stronger manager than Reed".

The Braddock resignation followed the departure of two other top Citicorp managers with close ties to Mr Reed – Mr Michael Callen, the head of corporate and investment banking in Japan, Europe and North America who was replaced last January, and Mr Lawrence Small, the vice-chairman who left in June 1991. Several observers suggest that both Mr Braddock and Mr Callen have been made scapegoats for Citicorp's recent loan problems and encouraged to leave by Mr Reed to show bank regulators that he is making crucial management changes in important areas. Some middle-ranking executives at the bank, especially those associated with Mr Braddock, are said to be concerned about their own job security.

Mr Braddock's departure has renewed doubt about the future of Mr Reed himself. Citicorp, however, has denied that his tenure as chairman and chief executive is in doubt.

A senior Citicorp executive yesterday acknowledged that there had been "a lot of speculation over the past 18 months about John's future". He added, however, that, "if anything, the departure of Braddock should put that question to rest". Mr Braddock's resignation left Mr Reed unchallenged at the top of the bank.

The A-team at Citicorp is now a five-man group, led by Mr Reed and including Mr William Rhodes, the veteran third-world debt specialist who has responsibility for problem loans. Also on the team is Mr Paul Collins, another Citicorp veteran in charge of corporate matters and the bank's capital position. Mr Pei-yan Chia, who has been promoted to head the bank's consumer division, is the fourth man on the team, which is rounded out by Mr Onno Ruding, the former Dutch finance minister who is described by the bank as the architect of its global finance strategies.

At the time of Mr Ruding's appointment last January Mr Reed said he was moving the bank's top management to "a much more primitive structure" to achieve better credit controls. Mr Reed also admitted: "One of the things I have been correctly criticised for is that the management [of the corporate division] has produced some pretty horrendous results. We are guilty of having run the business a bit cavalierly."

These sort of mea culpas from Mr Reed – and there have been several over the past two years – have had the effect of fuelling more speculation about his future rather than dampening such talk on Wall Street. Proof of solid management, evidence of recovery in earnings and improved capital ratios will be needed to lay such speculation to rest.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Base rate cut to tame markets

From Sir Anthony Jacobs.

Sir, Why has the government failed to lower interest rates significantly after achieving a 15 per cent devaluation of sterling? Industrialists accepted reluctantly a 10 per cent base rate as the price for remaining in the ERM when the severity of the recession in the UK required a base rate no greater than America's equivalent, which is only 5 per cent.

Having been forced out of the ERM, there should have been an immediate reduction in base rates by as much as 4 percentage points. Sterling might then have fallen further than the 5 per cent it lost in the first few days, but probably not lower than the current level of 15 per cent. Furthermore, a 4-point reduction in mortgage rates would have reduced the retail prices index by 2.6 per cent, going some way to offset the increased cost of raw materials caused by devaluation.

The failure to make a large cut in interest rates means that the currency speculators can continue to speculate against sterling knowing that by stages base rates will be reduced and therefore they can expect a one-way downward market in sterling for some time to come.

While we cannot "beat" the currency markets, we can at least understand how they operate and thereby try and have them speculate in our favour rather than against us.

This result can still be achieved by a further immediate substantial base rate cut. With a combination of the likelihood of UK base rates thereafter being increased as the economy recovers and German base rates being reduced owing to the gathering recession in Germany, we may expect that in the course of next year sterling will rise and the D-Mark will fall, so that Britain's re-entry into the ERM may become possible. Meanwhile we are suffering the worst of both worlds with depreciated currency and high base rates.

Anthony Jacobs,
9 Nottingham Terrace,
London NW1 4QB

Independent Bank cannot be regulator as well as guardian

From Mr Bryan Cassidy MEP.

Sir, An autonomous Bank of England should be one of the necessary preconditions for sterling's re-entry into the ERM, as your leader ("Down and down again", October 6) rightly states. But, before that, don't we have to review the Bank's regulatory role? The doubt cast over it by the US Congress's report on BCCI and the backwash from the Blue Arrow affair which sent waves lapping to its very doors are strong arguments for separating the Bank's role as guardian of the currency from that of regulator. The UK needs a strong banking regulator without umbilical links to the banking industry.

Bryan Cassidy,
Bureau 827,
Van Maerlant,
European Parliament,
97-113 Rue Belliard,
1040 Brussels

Imaginative quality

From Prof D R Myddelton.

Sir, Your leader, "Predators come out to play" (October 6), contrasts the doubtful quality of Trafalgar House's assets and earnings with RHM. But the largest single asset on RHM's balance sheet – brands – just appeared out of the blue in 1988, valued on a basis one can only describe as imaginative.

D R Myddelton,
professor of finance and accounting,
Cranfield School of Management,
Cranfield,
Bedford MK43 0AL

Not speaking for all banks on currency speculation

From Mr Terry Thomas.

Sir, You quote Mr Peter Wood, Barclays' finance director ("Banks defend actions on £ deals", October 6), as speaking for all UK clearing banks. This is simply not true.

We at the Co-operative Bank did not speculate against the pound using either our own money or that of our customers. We restricted ourselves to dealing for customers with genuine international trading requirements. We believe it is unsound for a British clearing bank to speculate against the British currency and the British economy using deposits provided by its British customers and at the expense of the British taxpayer.

Judging by his reported comments Mr Woods is an apologist for some clearing banks now terrified at the prospect of a full-scale inquiry into their foreign exchange dealings over the past few weeks and the possibility of the introduction of a special windfall tax on banks' dealing profits.

If the cap fits, Mr Wood, wear it, but do not purport to speak for all clearing banks.

Terry Thomas,
managing director,
The Co-operative Bank,
1 Balloon Street,
Manchester M60 4EP

Protection of software

From Mr Peter Sommer.

Sir, Alan Cane's interesting piece about computer software faults (Technically Speaking, October 6) suggests insurance as a route to protection. This begs the question of why insurers would be willing to make judgments about degrees of unreliability in computers that everyone else baulks at.

The problem with hoping for an actuarial database to help determine premiums is that nothing in the computer world – hardware platforms, operating systems, applications programs – has a sufficiently long life for any worthwhile data to be built up.

That is why those of us who advise underwriters in this area tend to use more informal indicators. These include: reviewing development and testing methodologies; looking for careful version release procedures; and preferring systems which include such features as continual verification of correct working and fail-safe arrangements. A further element is well planned contingency and recovery planning.

The closest we get to actuarial data is a collection of anecdotes about system failures which we can search via full text retrieval software.

Peter Sommer,
Virtual City Associates,
67 Mount View Road,
London N4 4SR

An alternative view of the rate of life policies lapsing

From Mr N Scott.

Sir, There was one aspect of the article about Scottish Widows that I fear may have seriously misled your readers ("Scottish Widows ordered to review 20,000 life policies", October 7).

The article quoted figures from a survey carried out by the Securities and Investments Board of policies which were terminated within the first two years of the contract. However, this month's edition of Money Management shows a rather different picture and, indeed, of the offices surveyed, Scottish Widows has the lowest rate of policies lapsing – only 4 per cent compared with the 22 to 45 per cent mentioned in the article.

The very thorough analysis we have carried out of policies sold by appointed representatives has indicated no significant difference in lapse rates when compared with Scottish Widows policies sold through independent financial advisers.

N Scott,
Scottish Widows' Fund and Life Assurance Society,
15 Dalkeith Road,
Edinburgh EH16 5BU

Major and cabinet have gained 'substantial successes' in Europe

From Mr Ian Taylor.

Sir, I should like to remind some of your contributors about the substantial success which Mr Major and his cabinet are achieving with their leadership from the "heart" of the European Community.

Who, at Maastricht, fought for and won concessions to enshrine subsidiarity and to reserve a position as to whether Britain should join a single currency bloc? With the hindsight enjoyed by most of his critics, perhaps Mr Major should have foreseen that his position in the ERM was precarious. However, he did try to play the game with a "straight bat" within the rules as they were understood to be at the time.

It seems quite possible and even desirable that the "greater German" bloc should emerge. I very much doubt if the French will relish the thought of their economic management being dictated by an "independent" central bank and thus will most likely opt to wait until Britain, France and Italy have converged sufficiently with Germany to allow a joint politically controlled central bank by the participating countries.

Again Mr Major's instinct for caution in rejoining the ERM follows logically. Some commentators like to portray this as a sop to the so-called Euro-sceptics. If this is so then truly we would all be Euro-sceptics, which we are not. His insistence that a return to the ERM will not be in the foreseeable future seems only common sense.

The Conservative party is, of course, representative of the feelings in Britain as a whole. The Conservative government has achieved its Maastricht goals with the consent of parliament and I am sure that the Conservative party conference will give Mr Major a strong vote of confidence.

Ian Taylor,
Soroba House,
Ardfern,
Argyll PA31 8QR

OBSERVER

Forecasting nostalgia

■ Certain recent events have put rather a damper on today's celebrations of the second anniversary of the UK joining the European exchange rate mechanism. But it is good to know that, even though Britain is no longer a member of the club, life in the Treasury still goes on as if nothing had happened.

Take for instance one of its leading economists, Rod Whittaker, who over the past year has been working to build ERM membership into the Treasury's computerised economic model which is an essential tool in forecasting.

The mere fact that Britain has now left, with no immediate prospect of rejoining, has not been enough to put him off his stride. Indeed, a paper from the indefatigable Whittaker on his not-quite finished project – entitled "Simulating Economic Policy Within the ERM" – is to be presented at a conference in London on December 1. Who knows, if only he had finished his work on the model before Black Wednesday, we might now be celebrating today's anniversary instead of ignoring it.

Back-wash

■ It's all hands to the pump in customers' interests at Hewden Stuart, according to chairman Sir Matthew Goodwin.

Witness the time he picked up a ringing phone in the Glasgow headquarters and found he was talking to a disgruntled forklift-truck operator. Twenty minutes later, a fitter was on site. But the performance isn't always as good when seen from an in-company viewpoint, the forthright Scot admitted to City analysts. A pump-hose he lately had delivered to his own home turned out to be leaky, and drenched him in front of the lorry driver who'd brought it.

What was his employee's reaction? "He just laughed and said: 'You're the *chairman* – you should see the service the customer gets'."

Patten pattern

■ After hyping his education bill as a "landmark" document for taking schools into the next century, education secretary John Patten has decided not to trouble himself with responsibility for steering it through its detailed Commons scrutiny in the autumn. He has handed that job on to Eric Forth, one of the government's more flamboyant junior ministers.

Details have never been Patten's strong point. Headlines before small print has been his watchword ever since his long stint at the Home Office.

Nor has the publicity knack deserted him. Damning this year's GCSE results within days of publication, then comprehensively rubbishing the exam boards again in a throwaway line at the Tory conference, are merely recent examples.

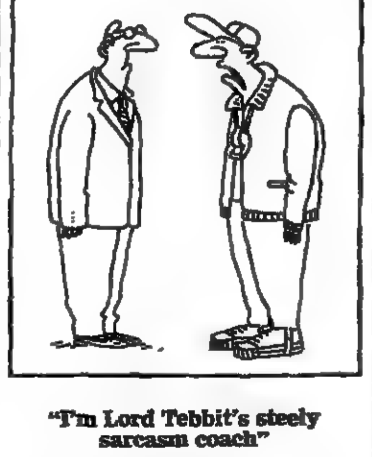
Eye opener

■ In a Japanese version of the old biblical tale of Susanna and the elders, women employees of Tokyo brokers Yamaichi Securities were bathing nude at a holiday resort when they discovered they were being spied on by male colleagues.

But this time the bathers did not need the prophet Daniel to save them from the spies' iniquity.

Returning to work, one of the women pilloried the most prominent peeping Tom through the company's computer system, broadcasting his name to over 100 branches. Moreover, she did so without revealing her own identity – which is perhaps as well.

Announcing that the case was being investigated, a Yamaichi spokesman added: "We understand the women were very angry, but of course this misuse of computer terminals cannot be allowed."



"I'm Lord Tebbit's steely sarcasm coach"

Latin cool

■ "Now put your mouth where your money is," runs the latest message to Brazil's foreign creditors from new president Itamar Franco in the wake of his appointment of a solely Portuguese-speaking as well as unknown finance minister.

Wouldn't certain communications problems be caused by his choice? No, said Franco, who apparently feels that having the developing world's largest debt puts one in a commanding position.

The international financial community "will just have to learn Portuguese", he added (raising eager speculation about which words from the phrase book Citicorp vice-chairman Bill Rhodes will choose to respond with). And anyway "Japanese is more useful than English".

Franco also provided an object lesson in unflappability that even John Major might envy. Challenged about a drop in the São Paulo stock market that makes the London decline look small in comparison, the Brazilian president said simply: "It's not up to financial markets to dictate economic policy."

European scoop

■ Lady Thatcher's choice of The European for her onslaught on the government's European policy seems a trifle bizarre.

After all, the weekly paper is supposed to be championing European unity, not helping destroy it. It wouldn't have happened when Euro-buff Cap'n Bob Maxwell was at the helm, that's for sure.

On the other hand, there must have been plenty of Fleet Street Knights who'd have jumped at the chance of publishing the attack. The European's editor Charles Garside insists that it was nothing less than a well planned scoop.

Lady T had written for his paper once before, and he asked her some time ago to pen her latest essay.

He also denies that it had anything to do with the paper's new owners, the reclusive Barclay twins, who are great admirers of the former prime minister. Unlike Maxwell, the present proprietors do not interfere, and Garside says that his paper is far more independent than it used to be. He's keen to publish all shades of opinion. A fortnight ago, he gave EC president Jacques Delors his head.

Whatever the reason for her choice, one of the more refreshing qualities of the iron lady is that she so often operates outside the established channels. Good for her, and well done The European.

Flood warning

■ Are the Tory wets about to sweep in with a vengeance?

"Minister opens sea defences at Herne Bay," proclaims a press release just in from the agriculture department. "We must seek to work with, rather than against, the forces of nature," adds Earl Howe, the minister responsible.

FINANCIAL TIMES
Thursday October 8 1992

Bundesbank draws back from M3 measure as main indicator of stability

Germany fuels hopes of rate cut

By Quentin Peel in Bonn

THE BUNDESBANK has fuelled expectations of a further easing of German interest rates by drawing back from its earlier insistence on the M3 measure of money supply as the most important indicator of domestic monetary stability.

The central bank's tough interest rate policy has been based in large part on its concern that M3 growth at 9 per cent was well outside of its 3.5-5.5 per cent target range. M3 includes cash in circulation, current accounts and short-term deposits.

German economists, however, say Bundesbank statements this week on special factors affecting M3 growth and a clear policy by the bank in recent days to keep very short-term interest rates below 9 per cent are possible precursors to further cuts in the Lombard and discount rates.

"It is undoubtedly a change in the Bundesbank tone," said Mr Wolfgang Scheremet of the DIW economic research institute in Berlin.

"They are preparing a change in direction. We expect the bank to cut its rates, but we are not sure when. Once they have changed direction, they usually move fairly swiftly in the same direction with a series of decisions in a relatively short space of time."

The latest indications have come in policy statements from Mr Hans Tietmeyer, vice-president of the Bundesbank, and from Mr Otmar Issing, a fellow director and leading monetary hawk on the ruling council.

They follow a rising tide of criticism from German economists at the bank's rigid adherence to the M3 measure of money supply on the grounds that it has been distorted by the extraordinary processes of unification.

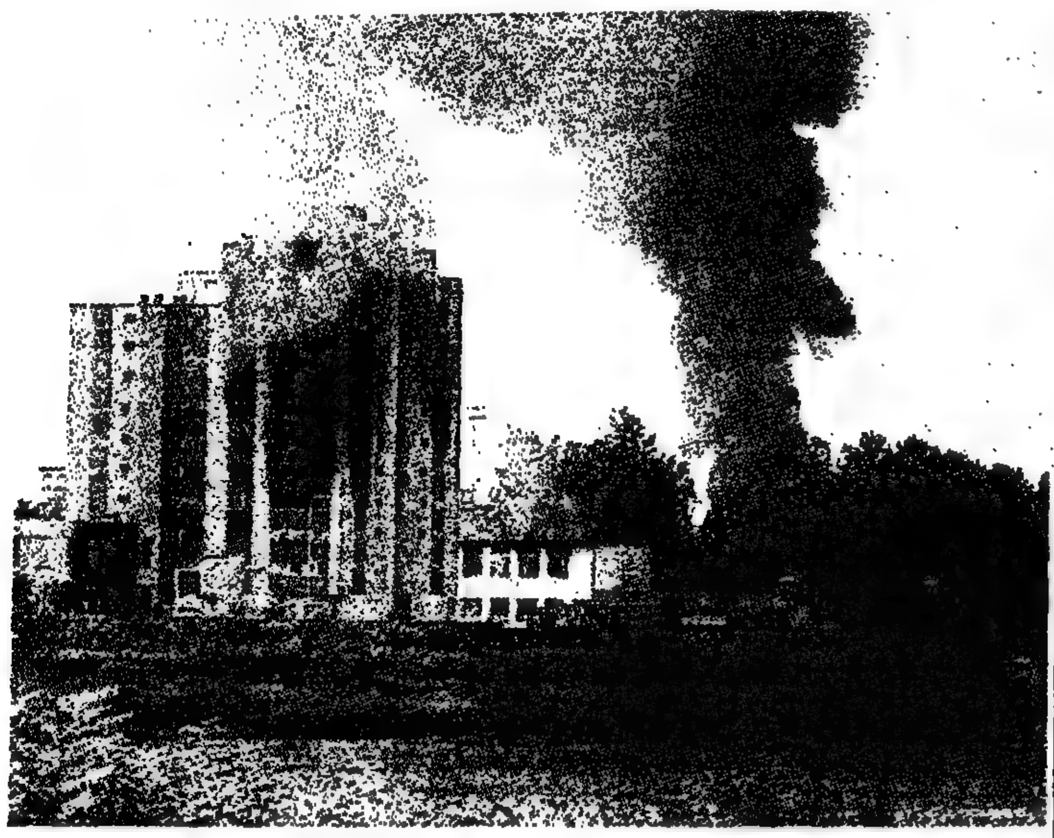
Mr Tietmeyer said that the Bundesbank was "very conscious that the discussion about the measurement of the growth in money supply is influenced by some special considerations."

"They include not only the expansion of credit in east Germany, and the definition of a money supply target after unification, but also the quality of the M3 measure of money supply as an indicator, given an inverse interest rate structure, and the effects of currency inflows."

The inverse interest rate structure refers to the fact that the bank's high interest rate policy has kept short-term rates above long-term rates, encouraging investors to switch to short-term deposits, which are themselves part of the M3 measure.

"M3 is and remains for us naturally one important measure [for monetary policy]," he confirmed. However he added: "we know that there are currently a series of other factors which must be taken into account and watched closely."

Mr Tietmeyer's remarks were echoed and amplified yesterday by Mr Issing, who pointed out that a slowdown in Germany's economy would dampen the growth of money supply.



An oil refinery and apartment buildings burn in the Bosnian town of Bosanski Brod after Serb forces took over

No-fly zone, Page 2

Sharp rise in German defaults on debts to UK

By David Dodwell, World Trade Editor, in London

STRONG EVIDENCE of the deepening difficulties faced by German industry came yesterday from Britain's leading private export credit agency, which reported a 68 per cent increase in payment defaults by German importers of UK products.

A survey by NCM Credit Insurance, which took over the short-term export finance arm of Britain's Export Credits Guarantee Department early this year, shows an overall increase of 26 per cent in the number of overdue accounts reported by its 6,000 UK customers. It blames the rise on deepening recession in many of Britain's leading export markets.

Problems are "particularly worrying" in Germany, the study says. The 68 per cent rise in overdue accounts, comparing the first eight months of 1991 with the same period this year, compares with a 53 per cent increase in France, 52 per cent in Sweden, 35 per cent in Spain and 34 per cent in Italy.

About 40 per cent of overdue accounts eventually become full defaults, but NCM said yesterday that the trend for defaults was identical to that for overdue accounts.

A official at the BDI, Germany's leading business body, said German companies were being squeezed hard by high interest rates and the collapse of the market in the east of Germany, as well as economic troubles in leading export markets such as Britain, the US and France.

According to Mr John Price, one of the authors of the NCM study, most defaults in Germany are being reported in the small electrical machinery sector. By contrast, the textile sector is giving greatest problems in Spain, Italy and Sweden, with the clothing sector showing the most severe problems in France.

The study argues that the recent devaluation will provide only a modest fillip to UK exporters. "Devaluation may help British exporters in terms of price, but as the worldwide recession continues, it increases the risk of non-payment by importers who find their own domestic economies suffering," the study says.

NCM insures about £14bn ($25bn) of UK exports every year. The database used for its study is drawn from information provided by 6,000 exporters.

German scepticism on Maastricht, Page 2

UK tabloids biased says report

By Raymond Snoddy in London

THE COVERAGE of Japan in many British national newspapers is negative and biased with a heavy concentration on whale hunting, war atrocity and "funny Jap" stories, according to a new study published in the UK.

The fiercely competitive mass-market tabloids, with the exception of the Daily Mirror, use "viciousness, vacuity and sheer negative spitefulness in their treatment of items on Japan" said the report sponsored by Andersen Consulting, the management consultancy arm of UK auditors Arthur Andersen.

The survey by Professor Douglas Anthony, professor of Japanese studies at Cardiff University, was based on a study of the national and regional press from January to June 1991.

Prof Anthony said that the Daily Mirror was less culpable than The Sun or the Daily Star.

The amount of Japanese coverage in the broadsheet papers was much greater than in the tabloids but Japan was still given less attention than its size merited.

The Financial Times had the most articles on Japan in the period – 639. The study says such a high proportion of the FT's coverage was neutral it was not worth making a full breakdown.

BCCI compensation deal close to approval

By Andrew Hill in Luxembourg

CREDITORS of the collapsed Bank of Credit and Commerce International yesterday fought to postpone approval of the once-and-for-all compensation plan worked out by the bank's liquidators and the Abu Dhabi majority shareholders.

But Luxembourg's state prosecutor recommended that the Grand Duchy's district court should clear the plan. The tribunal's final decision will be announced on October 22.

At the court's request, BCCI creditors were balloted this summer on the $1.7bn package of payments, which has already been cleared by courts in the UK and Cayman Islands.

Approval by Luxembourg, where BCCI had its headquarters, would end the legal procedure, although disgruntled creditors could still take the case to the Grand Duchy's appeal court.

The scheme was backed by about 90 per cent of the creditors who voted. Mr Georges Baden, the Luxembourg liquidator, said the result undermined his opponents' claims to speak for the majority of creditors.

But in a five-hour court hearing, critics of the package argued that there had been irregularities in the ballot and that new information should be taken into account – notably the damning report of Mr Bob Kerry, the US senator, on the BCCI collapse and the as-yet unpublished UK report by Lord Justice Bingham.

Mr Masihur Rahman, formerly chief financial officer of BCCI, flew from New York to voice his doubts about the settlement. "The UK liquidators and the Bank of England are hand in glove with the Abu Dhabi authorities in trying to contrive this agreement," he told the court.

Mr Keith Vaz, the British Labour MP who chairs the parliamentary group on BCCI, warned that approval would rule-out further compensation claims, if the Bingham report accused the Bank of England of negligence.

Lawyers for the Abu Dhabi authorities rejected Mr Vaz's suggestions. They said the report, which should appear in the same week as the court's final decision, would not affect future claims. They and the liquidators argue that rejection of the settlement could end creditors' chances of compensation, or at least delay payments for years.

The penultimate scene of the legal drama was played out in the district court in front of nearly two dozen lawyers.

Mr Vaz, who has alleged that the liquidation is costing £2m a week, said he was depressed to see how the money was being spent. "To think that it could all end like this – under plastic chandeliers, next door to a domestic violence court," he said.

Ciments Français chairman quits

Continued from Page 1

shares were suspended in Paris, as were those of Italcementi in Milan. Trading in the shares of Italmobiliare, the company which controls Italcementi, was also halted.

Ciments Français has recently been the subject of speculation because of its failure to publish interim results, originally expected by analysts 10 days ago. Even before yesterday, analysts had been expecting a sharp fall in operating profits from the FFr140m produced in the first half of 1991, because of the depressed state of cement sales in its main markets, France and Spain.

The Ciments Français board yesterday stressed that the accounting anomalies "have not affected in any way the industrial and commercial activities of the group". However, the company is now expected to make steep provisions to cover its financial losses, plunging its first half figures into the red. Mr Conso has been replaced by Mr Bernard Laplace, honorary chairman of Ciments Français.

The controversy comes at a sensitive time for Paribas, already affected by the downturn in the French property and stock markets.

Russians

Continued from Page 1

Mr Danilov-Danilian was critical of western reaction. The only environmental aid of note, he said, was an offer by Norway and Finland to pay $100m to refit two nickel plants near their border. But he said Russia would need to contribute $550m. "We should not put a priority on saving our neighbours from pollution," he said. "We must first worry about our own land."

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F			°C	°F			°C	°F
				Boulogne	R	19	66	Frankfurt	C	13	55	Majorca	S	24	75	Oporto	F	20	68	Tenerife	F	24	75
				Brussels	R	11	52	Geneva	C	12	54	Malaga	S	22	72	Oslo	S	11	52	Tokyo	F	18	64
				Budapest	F	18	64	Gibraltar	S	20	68	Malta	S	28	82	Paris	C	12	54	Toronto †	S	[illegible]	38
Ajaccio	F	22	72	Buenos Aires	F	17	63	Glasgow	S	10	50	Manila	C	33	91	Prague	C	15	59	Tunis	S	27	81
Algiers	F	25	77	Cairo	S	33	91	Helsinki	S	9	48	Melbourne	F	12	54	Reykjavik	Dr	8	46	Valencia	S	21	70
Amsterdam	F	14	57	Cape Town	F	16	61	Hong Kong	S	28	82	Mexico City	C	18	64	Rhodes	S	27	81	Venice	S	19	66
Athens	F	28	82	Caracas		–	–	Innsbruck	C	13	55	Miami †	C	22	72	Rio de Janeiro	C	33	91	Vienna	C	17	63
Bahrain	S	33	91	Casablanca †	F	20	68	Inverness	C	11	52	Milan	R	17	63	Rome	F	23	73	Warsaw	C	12	54
Bangkok	C	32	90	Chicago †	S	8	46	Islamabad	C	27	81	Montreal †	S	5	41	Salzburg	R	12	54	Washington †	S	8	46
Barcelona	F	20	68	Cologne	R	12	54	Istanbul	S	31	88	Moscow	R	5	41	S'Francisco †	S	15	59	Zurich	C	12	54
Beijing	S	21	70	Copenhagen	S	12	54	Jakarta	R	31	88	Munich	C	13	55	Seoul	C	19	66	Temperatures at midday yesterday			
Beirut	S	27	81	Corfu	S	27	81	Johannesburg	S	25	77	Nairobi	F	26	79	Singapore	F	30	86				
Belfast	C	11	52	Dallas †	S	17	63	[illegible]	S	19	66	Naples	F	24	75	Stockholm	F	11	52	† Noon GMT temperatures			
Belgrade	F	24	75	Dublin	C	12	54	London	C	14	57	Nassau	C	30	86	Strasbourg	C	13	55	C – Cloudy Dr – Drizzle			
Berlin	C	12	54	Dubrovnik		–	–	Los Angeles †	Fg	16	61	New Delhi	S	31	88	Sydney	C	19	66	F – Fair Fg – Fog H – Hail			
Biarritz	F	16	61	Edinburgh	C	11	52	Luxembourg	C	13	55	New York †	S	10	50	Taipei	C	26	79	R – Rain S – Sunny			
Bombay	S	34	93	Faro	S	20	68	Madeira	C	21	70	Nice	C	17	63	Tangier	S	21	70	Sl – Sleet Sn – Snow			
Bordeaux	C	13	55	Florence	R	18	64	Madrid	S	18	64	Nicosia	S	31	88	Tel Aviv	S	31	88	T – Thunder			

THE LEX COLUMN

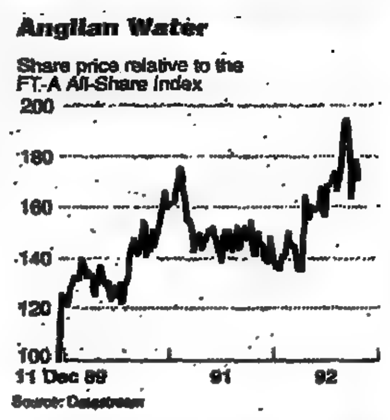
The cutting edge

We should know a little more about UK economic policy after the chancellor's speech today to the Tory party conference. It is already disconcerting, though, to see how readily the knives are being sharpened to chop the Jubilee Line extension. US experience demonstrates that lower interest rates are not enough to induce recovery from a recession associated with deflated asset prices. Admittedly its economic merits are arguable, but this is an infrastructure project that would add to property values along its route and create employment in a region where confidence is at a particularly low ebb. The government may want to appear tough. The danger is that it will fall into the classic trap of cutting capital spending because that is easier than bearing down on current outlays.

Indeed, the scope for savings on wage costs may turn out to be strictly limited, at least in the short term. This is partly because over a third of public sector workers are subject to review body decisions, and partly because of the knock-on effect of some large awards made around the election.

The dilemma facing Mr Lamont is that his policy will scarcely have any credibility if next year's PSBR is larger than the £33bn pencilled in at the time of the Budget. It looks increasingly as though higher taxes will also be needed to meet that target. Here, too, the options are limited. Non-indexation of allowances and over-indexation of excise duties may yield some extra revenue. In theory, it might not be bad for growth if fiscal policy were more relaxed, but there is not just the question of the chancellor's pride. The deficit still has to be financed.

FT-SE Index: 2517.1 (+28.7)



Anglian Water

The 3 per cent fall in Anglian Water's shares yesterday was inevitable given Lyonnaise des Eaux Dumez's decision to sell its stake. Less clear is why the sector as a whole reacted badly. True, £110m institutional cash was required to soak up the shares – money which may have been diverted from elsewhere in the sector. More worrying is the sight of a well-informed investor selling out at what, presumably, it perceives to be an opportune moment. The timing is doubly curious as the stake was worth more to the vendor before sterling was suspended from the ERM. But perhaps Lyonnaise has reasons of its own.

It could certainly use the exceptional gain on its investment. The Dumez contracting side – which includes a hefty exposure to the Channel tunnel – will probably struggle again this year. More property provisions are also likely. The poor performance of other listed investments, including minority stakes in Havas, the French media company, and Alfred McAlpine, may have narrowed the list of potential disposals to one.

While Anglian loses a useful minority shareholder, this will not jeopardise co-operation with the French at an operational level. Anglian is probably the least expansionist of all the UK water companies, but then the travails of Lyonnaise over the past two years are hardly a glowing advertisement for diversification.

Ciments Français

The size of the black hole uncovered by investigating accountants at Ciments Français can hardly be gauged from last night's brief statement. But the resignation of the chairman – and the suspension of share quotes in Paris and Milan – suggest that Italcementi may well seek to renegotiate the FFr6bn it paid for a controlling stake in its French rival. Paribas, though, may yet be the main victim. The French financial group, whose share price yesterday slumped 4.4 per cent to FFr278, was not only the vendor in this year's transaction; it retains a 34 per cent stake in Ciments Français after underwriting an unsuccessful share placing.

If there are financial horrors in this case, the episode will serve as a warning to those now embarking on a fresh round of cross-border deals. The pace of M & A activity in Europe has markedly slowed in the third quarter, but it would be wrong to think that the process of industrial restructuring will be seriously derailed by doubts over Maastricht, or even currency turbulence. The message is that even well-regarded groups – and Ciments Français, if highly geared and aggressive, was certainly that – may not be everything they are cracked up to be.

The building materials and contracting sectors, of course, have been particularly accident prone. Steetley's French aggregates business, for instance, may have cost the UK company its independence, while Hochtief (Rush & Tomkins), Bilfinger & Berger (Birse), and Dumez (McAlpine) can hardly be thrilled with their UK investments. RMC and Redland, though, have demonstrated the rewards for getting it right.

Coal privatisation

The prospect of a stable utility like East Midlands Electricity buying a stake in British Coal is enough to send a shiver down any shareholder's spine. Fortunately it seems East Midlands' involvement in the nascent Democratic Mineworkers consortium will be limited to advice, sympathy, and perhaps a small equity stake. The employee buy-out team will have to go elsewhere for most of its funds. The consortium's suggestion that it is ready to buy the whole of British Coal must be regarded as kite-flying until the financial backing becomes more substantial and the form of the sale clearer.

Nonetheless it does focus attention on the risks faced by a buyer. If the proposed five-year deal between the electricity generators and British Coal goes ahead, the 20 most efficient pits might be profitable in the private sector. Assuming that the government bears the cost of closing the 30 remaining collieries, it can expect very little net cash from the sale. The buyer would be left with a five year contract with the generators – a very short horizon for a mine operator – and an uncertain future after that.

Even if the government sweetens the deal to make it financially attractive, it is hard to see a long-term future for the industry. It may face carbon taxes and further environmental legislation as well as competition from cheaper, cleaner imports. In cutting its losses, perhaps the Treasury hopes to make something back on the sale of its remaining stake in National Power and PowerGen.

FINANCIAL TIMES

COMPANIES & MARKETS

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Thursday October 8 1992

INSIDE

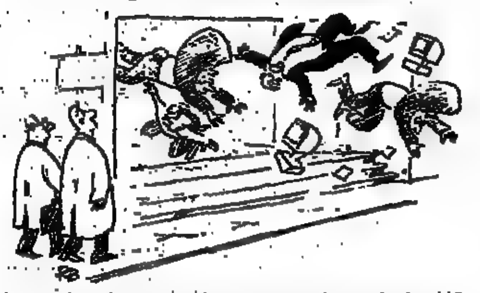
Ford cuts production in German plant

Ford of Europe is cutting production at its car assembly plant in Cologne, Germany, in response to falling sales in western Europe and excessive stocks. The production cuts mean Ford will lose output of around 6,000 Fiestas and 3,000 Scorpios/Granadas. Page 18

A shadow of its former self

Kuwait's stock exchange, which closed with the Iraqi invasion in August 1990, has reopened with a whimper. Since trading restarted on September 28, it has seen less than 80 transactions a day in no more than a dozen shares. Back Page

One tempest breeds another



When hurricane Andrew swept through the US in late August, it spawned another tempest in the natural gas futures pit at the New York Mercantile Exchange. Volume soared, prices climbed and every player in the market stayed within sight of their screen. Page 24

Outsider slims Pemex

Mr Francisco Rojas had never worked for an oil company. But in 1987 he took over Pemex, the world's fifth largest oil company, with *orders to lose the fat. Now Pemex has cut* operating costs by 20 per cent since 1986 and increased oil production. Page 24

Qantas rises 209%

Qantas, the Australian airline which the government wants to privatise early next year, reported a 209 per cent increase in net profit to A$137m ($98m) for the year. Meanwhile, Ansett, the aviation group owned by TNT and News Corporation, may be floated "at some stage in the future", according to TNT. Page 19

Lease of life for futures trading

The US Commodity *Futures Trading Commission* is on the brink *of a new lease of life. Mrs Wendy Gramm* (left), CFTC chairwoman, describes a bill that she says would bolster US competitiveness in global derivative markets, and allow US futures exchanges to uphold their reputation as financial innovators. Page 20

Jitters over Australian issues

Continuing weakness in the Australian share market has prompted jitters about the prospects for new equity issues. Confidence has *also been undermined* by disappointment over several recent issues. Page 28 19

Posco chief seems set to quit

Mr Park Tae-joon, chairman of South Korea's *Pohang Iron and Steel Company (Posco)*, appeared determined yesterday to quit the world's third largest steelmaker. Page 18

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Goodman Fielder	20	Tengelmann	10
H.J. Heinz	20	Unilever	25

Chief price changes yesterday

FRANKFURT (DM)				Legrand	3920	+	290
Rises				Printemps	780	+	130
Douglas Hldgs	433	+	15	Soc Generale Fr	514	+	30.8
Holzmann Ph	838	+	28	UAP	375	+	29
Karstadt	492	+	11	**Falls**			
Kaufhof	393	+	10	Fin Paribas	310	–	32.5
Falls				Legris	222	–	22
Asko	495	–	15	**TOKYO (Yen)**			
Schwalbach Lub	290	–	11	**Rises**			
NEW YORK ($)				Crown	850	+	90
Rises				Fuji	500	+	50
Applied Bio	19⅞	+	2⅞	Mitsui Wharf	706	+	68
Fed Dept Stores	15	+	¾	Nippon Kinzoku	459	+	68
Premier Bancorp	13¾	+	⅝	Shinsho	405	+	40
Falls				**Falls**			
Ford	38¼	–	1¼	Kyokuyo	517	–	37
Perkin-Elmer	29½	–	1½				
Pyramid Tech	6¾	–	1				
PARIS (FFr)							
Rises							
AGF	388	+	26				
LONDON (Pence)				StandardChart	478	+	31
Rises				Wimpey (G)	100	+	5
Allied Leisure	38	+	4	**Falls**			
Babcock Intl	33½	+	2	Abbeycrest	38	–	5
Blue Circle	137	+	11	Anglian Water	417	–	13
Burn Stewart	129	+	8	Arlen	14	–	2
Celestion	81	+	8	Austin Reed A	88	–	5
Forte	154	+	9	Brit Fittings	52	–	5
Hazlewood	186	+	9	Grampian Hdgs	90	–	16
Lloyds Chem	216	+	[illegible]	Owners Abroad	70½	–	6½
Prudential	259	+	10	Smurfit(Jfsn)	[illegible]	–	16
Psion	91	+	7				
Ramco Oil	[illegible]	+	[illegible]				
Ransomes	15	+	3				

Deliveries of luxury S-class help turnover rise by 3.5%, reports **Kevin Done**

Sales of Mercedes-Benz cars fall 7%

MERCEDES-BENZ car sales worldwide in the first nine months of the year fell 7 per cent to 397,000, the company said yesterday.

The turnover of the car operations, however, rose by around 3.5 per cent, or by DM1bn to DM30bn ($21.2bn), because of higher sales of Mercedes-Benz's top of the range S-class luxury car, which is in its first full sales year worldwide.

Mercedes-Benz car sales in Germany have dropped 18 per cent in the first nine months this year to 176,000. The company is being hit increasingly by falling demand for its smaller 190 series, which will be replaced by a new generation model next spring.

It is expected that this year, for the first time in its history, Mercedes-Benz will be out-sold in western Europe by BMW, its main domestic rival.

Mercedes-Benz forecast that its retail car sales would regain some lost ground in the final quarter and for the full year would total around 550,000 worldwide, a drop of less than 1 per cent from 554,000 in 1991.

Sales in western Europe (excluding Germany) fell 4 per cent in *the first nine months to 114,000* with declines in Italy and France but a rise of 7.7 per cent in the UK. Sales in the US rose 9 per cent to 47,600 helped by increasing leasing sales.

Mercedes-Benz car sales in Asia, excluding Japan, have jumped 65 per cent in the first nine months to 15,000. Sales for the full year in the region are expected to total 20,000, and the company expects to double this total by the mid-1990s.

Mr Jurgen Hubbert, managing director of the Mercedes-Benz car division, said yesterday that the company had no immediate plans to raise its car prices in the UK following heavy devaluation of the pound against the D-Mark, as its sales revenues were largely *hedged until the end of the year.*

It has already raised its prices by an average of 5 per cent in Spain and other German carmakers such as Volkswagen and BMW have also raised their prices in Italy.

It is expected that Volkswagen will be the first German carmaker to raise its list prices in the UK with an increase of just under 5 per cent.

Mr Hubbert said that Mercedes-Benz had increased investment in its car operations by around 10 per cent this year to more than DM2.6bn. Investment would total some DM13bn in the next five years, mainly for the development of new products.

He claimed that productivity in the final assembly operations of *its new Rastatt car plant had* been raised 20 per cent compared with the company's existing plants at Sindelfingen and Bremen.

Of the 10,500 jobs that are being cut by Mercedes-Benz in Germany this year, some 6,500 are being shed by the group's car operations and 4,000 from the commercial vehicles business, said Mr Hubbert.

The cuts are being achieved through natural wastage, early retirement and a reduction in the number of short-term contract workers.

Mercedes-Benz was still seeking a partner for the development of a new generation four-wheel drive leisure/utility vehicle to replace its current ageing *G-Wagen, said Mr Hubbert.*

Earlier talks with Mitsubishi Motors were abandoned earlier this year, and the present talks with Peugeot of France were no longer promising, as the two groups had widely differing concepts for a new vehicle, he said.

Ford to cut production, Page 18

David Waller on moves towards a new era for Finanzplatz Deutschland

German bourses combine to take on Europe

GERMANY'S fragmented stock exchanges, divided between eight different centres, have at last decided to share a common future. The announcement yesterday that the exchanges would be brought under a single holding company – Deutsche Börse, the German Exchange – from the beginning of 1993 is intended to put an end to decades of *damaging* rivalry between Frankfurt, by far the dominant market, and its smaller sisters.

The decision is a big step towards the realisation of Finanzplatz Deutschland, the often-postponed ideal of Germany as a *strong financial centre. Yet it* also leaves some difficult questions unanswered.

By providing for the exchanges in Frankfurt, Düsseldorf, Munich, Hanover, Hamburg, Berlin, Stuttgart and Bremen to retain their independent existence, it ensures *that regional tensions will linger* within the new structure. And by providing for the parallel development of screen- and floor-based trading, it leaves scope for rivalry between the two systems.

Still, the agreement is an important achievement, actively *encouraged by the federal* government. Ten months ago, Mr Helmut Kohl, the German chancellor, visited *the Frankfurt* exchange for the first time, calling for stronger capital markets in Germany. Days earlier, Mr Theo Waigel, finance minister, had presented a package of policy proposals designed to strengthen Finanzplatz Deutschland.

The creation of Deutsche Börse was only one such measure. Mr Waigel also called for an insider dealing law and a centralised supervisory body for the German securities industry. The plan was to implement these measures by the end of the current year.

That *timetable* will be impossible: Germany is unlikely to have a law against insider dealing law or a new supervisory body until the end of next year. However, as Mr Friedrich von Metzler, chairman of the Frankfurt bourse, said in a recent interview, the creation of Deutsche Börse is the necessary first step.

The agreement represents a *series of compromises:* between Frankfurt and the other exchanges; between the big *banks and the smaller dealers;* between the proponents of screen-based dealing and trading on a physical exchange floor.

"For 20 years, the other exchanges said that Frankfurt worked to their detriment," Mr von Metzler says, "but the agreement shows the recognition that it is good for everybody to strengthen the German capital market, and that if we don't, business will flow elsewhere, to London, Luxembourg, or to Paris".

The Frankfurt exchange, *accounting for some 70 per cent* of German securities business, will be transformed into a new holding company which will acquire the Deutsche Terminbörse (the German screen-based futures and options exchange) and the Deutsche Kassenverein, *the hitherto-independent clearing* and settlement agency for German securities.

The seven other bourses will then buy 10 per cent of the new holding company between them, and will be entitled to four seats on an enlarged supervisory *board.*

A further 10 per cent will be offered to the Makler, Germany's official broking community. The balance will be owned by Germany's credit institutions.

At first glance, Mr Rolf Breuer's appointment as chairman-designate of the Deutsche Börse – he is a main board director of the Deutsche Bank – *might suggest a victory for the* large Frankfurt financial institutions over the smaller banks and brokers.

'We have the structure and now we have to fill it with life'

It will suit the commercial aims of the larger institutions to have a more centralised exchange, but the fact that the smaller exchanges have backed the scheme as it stands shows that Mr Breuer – who has played a central role in negotiations – has compromised enough to assuage fears of domination by big banks and Frankfurt.

He has done this, in part, by a firm commitment to retain floor trading, in Frankfurt and at the other seven exchanges. New technology, originally seen as a threat to the smaller exchanges, has in fact worked to reduce tensions. *Ibis*, the Frankfurt bourse's screen-based dealing system, has overcome initial hostility from the seven smaller exchanges, and now provides a significant part of their business.

The new Deutsche Börse has ambitious plans to introduce a *fully-electronic screen-based dealing* system for the 30-50 most frequently traded equities and bonds in three to four years time, a step forward from the Ibis system. That will still leave many securities traded only on the exchange floors, providing them *with a continued raison d'être.*

Mr Breuer said yesterday that the regional bourses and the Makler supported the idea of a dual stock exchange: a nationwide network of electronic trading for a "European League" of the most heavily traded company shares and bonds; and a "regional league" of domestic securities with a strong regional connection. The regional floors will be enhanced by providing them with electronic support services, such as an automated order routing system.

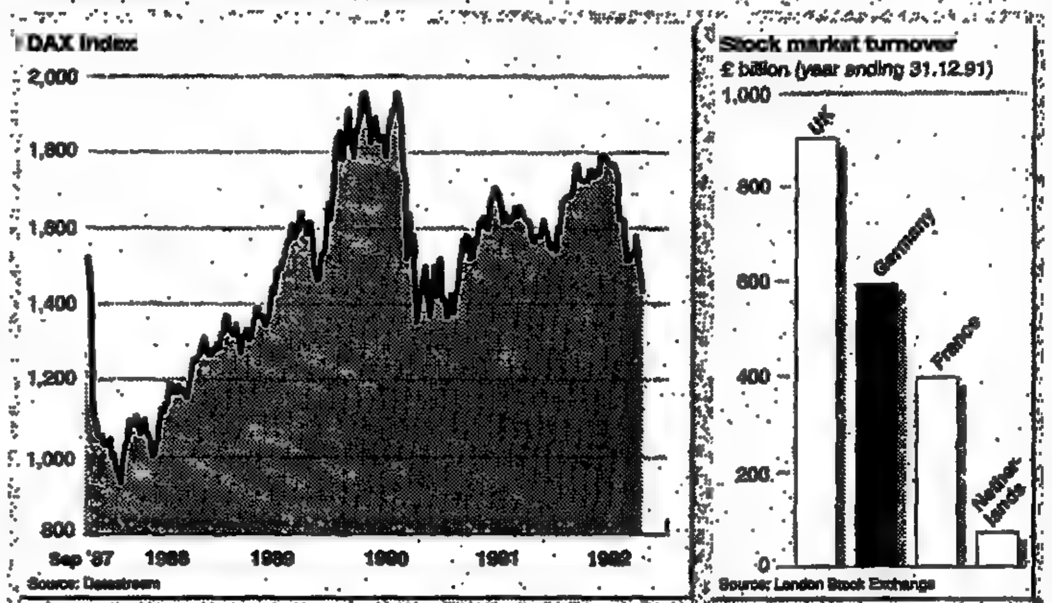
Mr von Metzler claimed that the new arrangement will ensure that Germany has one of the most sophisticated stock exchange structures in Europe. But he acknowledges that there are still many challenges ahead. German capital markets are underdeveloped, he says, reflecting the fact that bank finance, not equity, has been the engine of post-war Germany.

Even now, there are only about 660 quoted companies on the German market, representing a far smaller proportion of the country's economic output than in the US or the UK. Private investors also avoid equities, preferring to invest in bonds.

Moreover, Germany's federal structure – which has impeded the creation of single stock market for so long – works against the speedy solution of other, no less pressing issues. The lack of centralised regulation will not be solved without a round of haggling between Bonn and the governments of the Länder (states).

"We have established the groundwork for future developments," says Mr von Metzler. "We have the structure, and now we have to fill it with life."

German stock market



Stock market turnover
DM billion (1991 first 10 months)

	Frankfurt	Düsseldorf	Munich	Stuttgart	Hamburg	Others*	TOTAL
Bonds	1,525 (73%)	256	93	91	54	72	2,091
Shares	904 (67%)	204	95	39	76	40	1,358
TOTAL	2,429 (70%)	460	188	130	130	112	3,449

Source: FT

* Berlin, Hanover and Bremen

SocGen breaks trend with 8% rise

By Alice Rawsthorn in Paris

SOCIETE Générale yesterday lightened the gloomy mood of the French banking sector by announcing an 8 per cent increase in interim profits to FFr1.98bn ($410m) for the first *half of 1992 from FFr1.83bn* in the same period last year.

The robust increase in profits from Société Générale bucks the trend among France's big banks, which have been hit by competition in domestic banking and by the need to make steep increases in provisions on their property holdings and industrial investments.

Crédit Lyonnais last month disclosed it had barely broken even in the first half. Banque Indosuez, the prominent investment banking subsidiary of the Suez industrial group, reported a similarly steep fall in profits because of a hefty increase in its provisions.

Paribas, another force in French investment banking, avoided a dramatic decline in its interim profits by the use of disposals. Paribas was yesterday clouded by its involvement with Ciments Français, the troubled construction company now embroiled in a controversy over previously-undisclosed losses on off-balance sheet dealings.

By contrast Société Générale, one of France's largest private sector banks, managed to increase its operating profits and to avoid a steep increase in provisions on its property and industrial interests.

Mr Marc Viénot, chairman, said that Société Générale had pursued a "prudent provisions policy" in recent years. As a result, he said, it was able to limit the increase in first-half writedowns to 16.5 per cent, taking it to FFr3.05bn.

Société Générale saw its net banking income increase by 5.5 per cent to FFr16.6bn during the first six months of the year. Its gross operating profits rose by 4.5 per cent to FFr5.75bn in the same period.

Mr Viénot said the bank *planned to "maintain the strategy* of diversifying into different areas of revenue" in the future. However he refused to make a profit forecast for the full financial year.

Société Générale, like other French banks, has been cutting costs. Last month it announced a rationalisation for its French retail banking network, involving shedding 1,300 of its 23,000 staff within three years.

Prudential sells Canadian group

By Richard Lapper in London

GENERAL Accident, the Scottish-based composite (general and life) insurer yesterday announced that it has agreed to acquire the Canadian non-life insurance business of the Prudential Corporation, the UK life and financial services group, for C$165m ($132m).

Mr Barry Holder, general manager finance at GA, said the price represented a discount to net asset value of about 10 per cent and was a "good deal" for shareholders. "We were not on the acquisition trail. But Prudential were marketing the company."

Prudential hopes to distribute some C$25m in capital from the company before the sale, leaving C$140m to be directly payable by GA.

GA is now the biggest insurer in the Canadian market with a market share of about 8 per cent, said Mr Holder, who said that Canada had been a "profitable market" for GA.

The deal, the biggest overseas acquisition by a UK insurer for some time, signals the improving financial health of insurance companies such as GA which are relatively free from exposure to loss-making UK mortgage indemnity business.

Prudential is keen to focus on life assurance and financial services business.

It said on Tuesday that its UK reinsurance subsidiary, Mercantile & General Re, was prepared to lose its share of the general reinsurance market in search of higher margins.

GA is raising money for the deal through an issue of 13.5m ordinary shares, which will be placed with institutional investors at 488p.

The issue has been fully underwritten by Hoare Govett and J. Henry Schroder Wagg.

London marked the shares of GA up 5p to 510p. "From GA's point of view I *think it* makes a lot of sense," said Mr Paul Hodges, analyst with James Capel, the UK securities house. Pru closed unchanged at 259p.

The acquisition helps GA diversify its Canadian business geographically. GA's existing operations are heavily oriented towards Ontario, while the Prudential earned *nearly half* its premiums in Quebec.

Separately, GA is still negotiating with the Cheltenham & Gloucester Building Society over *the acquisition of 216,000* UK home insurance policies underwritten by Municipal Mutual Insurance, the local authority-owned insurer which ceased writing new business last week.

Ford to impose production cuts at Cologne plant

By Kevin Done, Motoring Correspondent, in Paris

FORD of Europe is cutting production at its car assembly plant in Cologne, Germany, in response to falling sales in western Europe and excessive stocks.

It is stopping production of the top-of-the-range Scorpio/Granada for three weeks, beginning October 19, and is stopping output of its Fiesta small car for one week from the same date.

The production cuts in Germany, the first for many years, are in addition to similar moves already announced at other Ford plants in Europe. Ford's two British car plants, at Dagenham and Halewood, as well those at Genk in Belgium and Valencia in Spain will all go over to short-time working this month.

Ford warned last month that its European operations would suffer a loss for the full year after struggling back into profit in the first half of 1992 from last year's record loss.

The German production cuts mean that Ford will lose output of around 6,000 Fiestas and slightly more than 3,000 Scorpios/Granadas.

Around 5,500 hourly-paid German workers will be affected by the short-time working on the Fiesta and Scorpio assembly lines. Of those, some 1,500 will be affected by the three-week lay-off. The workers will receive around 90 per cent of their net pay when the production is stopped.

Cut-backs elsewhere in Europe this month are stopping Fiesta production in Spain for five days – with the loss of about 7,000 cars – while the Sierra assembly line in Belgium has been reduced from two shifts to a single shift and only four-day working for two weeks.

In the UK, Ford has told trade unions that it has "half an assembly plant too much capacity".

It is shedding 1,550 jobs in the UK and is cutting around 20 per cent of its capacity at the Dagenham and Halewood plants.

Surveillance sees fee income rise by 12.6%

By Ian Rodger in Zurich

SOCIETE Générale de Surveillance, the Geneva-based international inspection group, said its total fee income in the first eight months rose 12.6 per cent and net income was comparable with the same period of last year. No figures were given.

Of the growth in fee income, acquisitions accounted for 4 per cent and foreign exchange 2.3 per cent.

The discrepancy between fee income and profit performance was due to a setback in loss adjusting in the US and Australia because of mild weather. A better result is expected in the final third of the year because of the effects of Hurricane Andrew.

European markets, which account for nearly half of total fee income, grew 18.5 per cent. North America, which accounts for a quarter of fee income, grew only at 1.9 per cent.

The Asia-Pacific region continued to grow at a strong 11.1 per cent, and the company said that its important contract for pre-shipment inspection services with the government of Indonesia had been renewed in July.

Protests as Posco chairman resigns

By John Burton in Seoul

MR PARK Tae-joon, chairman of South Korea's Pohang Iron and Steel Company (Posco), appeared determined yesterday to quit the world's third-largest steelmaker despite symbolic protests among the company's managers and workers.

Mr Park's resignation, which took the company by surprise on Monday, came a week before Posco shares are to be offered to foreign investors for the first time. His departure comes amid signs of growing political conflict between Mr Park and other leaders of the ruling Democratic Liberal Party (DLP).

In an attempt to persuade Mr Park to reconsider his decision, the company's 48 directors threatened to resign, 141 department managers signed an appeal for him to stay on, and more than 3,000 Posco workers demonstrated at the company's steel complexes in Pohang and Kwangyang.

Mr Park left Seoul, where he was attending a DLP meeting of the as the party's co-chairman, to travel to Pohang to explain his decision to the company's labour force.

The protests reflect fears over Posco's future after Mr Park leaves, as well as his revered status within the company he created 25 years ago on the Korean government's orders.

Mr Park provided extensive social welfare benefits to his workers, which made him popular.

Analysts said Mr Park's resignation would probably not immediately effect Posco's prospects since it has one of the best managements in South Korea. But they expressed concern about the long-term implications.

"Posco is known for its exceptionally loyal and cohesive management, which is largely due to Mr Park's personal dedication to the company. The danger is that esprit de corps could disappear along with Mr Park, especially if the government eventually appoints an outsider to run the company," said one Korean securities analyst.

Posco, which is 35 per cent owned by the Korean government, has benefited from Mr Park's close ties with the political leadership.

Mr Park said he timed his resignation to coincide with the completion of final phase of the expansion of Posco's production facilities.

However, Mr Park may have fallen victim to the growing dissension within the DLP as the presidential election approaches in December.

Mr Park has indicated he is opposed to the DLP presidential candidate, Mr Kim Young-sam. Mr Park made an abortive bid for the DLP presidential nomination earlier this year.

There is speculation that Mr Park may leave the DLP to support another presidential candidate or stand himself.

Possible successors to Mr Park include Mr Hwang Kyung-ro, the vice-chairman; Mr Jung Myung-sik, the president; and Mr Park Tuk-pyo, the vice-president for strategic planning.

Panel criticises GPG accounts

By Andrew Jack in London

GPG, Sir Ron Brierley's UK investment company which has had its shares suspended since December 1990, has been criticised by the Financial Reporting Review Panel for breaches of accounting standards.

The panel, the UK's watchdog of corporate financial reporting, ruled that GPG's latest set of accounts did not fulfil the requirement to comply with current accounting standards.

It said the company's approach "is not acceptable", but it held back from requiring GPG to re-state its accounts or take other remedial action because the treatment used is shortly to become mandatory.

GPG treated a £5.8m profit mainly generated from the disposal of MCG, a subsidiary, as an exceptional item. The gain was classified as a "discontinued operation", which would make it an extraordinary item under existing accounting guidelines.

The result was to increase pre-tax profits from £5m to £10.8m ($19.22m) and more than double earnings per share from 1.58p to 3.38p in the accounts for the 12 months to September 30 1991.

The panel said the approach breached SSAP 6, the standard dealing with extraordinary items and prior-year adjustments, and SSAP 3, which concerns earnings per share.

However, it said the treatment was consistent with Fred 1, the exposure draft on the profit and loss account issued by the Accounting Standards Board, which is to become a standard next month and is likely to convert nearly all extraordinary items into exceptional ones.

Mr Blake Nixon, GPG's UK executive director, said: "I can't really get too fussed about the thing.

"I'm not particularly sorry. I just see it as a storm in a teacup."

Tengelmann and Delhaize lead western retailers into Hungary

By Nicholas Denton in Budapest

TENGELMANN, the German department store group, and other investors yesterday received the go-ahead to acquire 147 retail outlets in Budapest.

The Hungarian government accepted offers of Ft4bn ($52m) with additional investment commitments of up to Ft1bn, representing the biggest single Hungarian retail privatisation to date.

Tengelmann emerged as the main winner in the auction, taking 24 of the larger shops in return for a total investment of about Ft1.5bn.

Louis Delhaize Group, the Belgian retailing company, won 10 outlets.

Tengelmann and Delhaize already own Hungarian retailing operations and the latest acquisitions will remove a major constraint on their planned expansion.

The German group, with its strong emphasis on expansion of department and discount stores in eastern Europe, is the major shareholder in Skala Co-op, the Hungarian department store chain.

Delhaize Profi-Duna discount retailing and Duna Fuszert wholesaling businesses helped Hungary contribute 6.4 per cent of group sales in 1991.

Discount retailing has proved attractive in Hungary, as declining real incomes have led consumers to economise.

Yesterday's transaction is unusual in that the State Property Agency, the privatisation authority, offered the 147 outlets for sale singly although they were grouped until now in 10 state-owned "Kozert" groups.

Generally, the SPA has found it less time-consuming to sell state companies intact even if the proceeds are lower.

Another 183 Kozert stores remain to be sold; these, however, are generally smaller and will attract less international interest.

Crédit Suisse ahead

By Ian Rodger in Zurich

CREDIT SUISSE, Switzerland's third-largest bank, said its revenue in the first nine months was ahead of last year's level, and it expected net profits for the year to be comparable with last year's record SFr848m ($689.4m).

Although the slack demand for credit was hurting, commission income was showing a marked rise. "Swaps and derivative financial instruments again account for a significant part of the increase in trading revenue," said Mr Robert Jeker, chief executive.

Mr Jeker warned that provisions for bad debts could be higher than last year's SFr1.1bn because of the persistent weakness of the world economy, but he said that Crédit Suisse, the main subsidiary of CS Holding, was in "a very good position" with a capital ratio of 9.8 per cent under the Basle norms.

He also quashed occasional speculation in Switzerland that the bank might abandon the retail sector in its home country.

Mr Jeker said it was "essential to maintain our strong position in the retail banking sector".

Sparebanken over-estimates equity capital

SPAREBANKEN, Norway's biggest savings bank, said it had over-estimated its equity capital partly due to a miscalculation of goodwill at the end of the first half, Reuter reports.

It said it lowered the bank's group equity capital to 8.74 per cent, still above the legal minimum, from 9.25 per cent. "The difference is due to a miscalculation of goodwill and an incomplete inclusion of deficits from the bank's subsidiaries," Sparebanken said.

From the end of 1992, banks' total equity must be at least 8 per cent of risk-weighted balance sheet items.

UK shoe board argued on foreign equity

By Peggy Hollinger in London

ATTEMPTS to introduce a foreign investor brought to a head the boardroom row at C&J Clark, one of Britain's largest private companies, and resulted in calls for the chairman's dismissal.

The disclosure that Mr Walter Dickson, who became chairman in July last year, sought to introduce a big foreign equity partner was made in a letter to shareholders sent out on Monday night. The company is currently in talks over a possible £150m ($267m) bid backed by Electra Investment Trust.

The foreign investor proposed by Mr Dickson was to have provided between £20m and £40m to pay for rationalisation in return for 10 to 20 per cent of the shares. This would have diluted existing investors.

The letter claims Mr Dickson "explicitly stated" that "without this equity injection, the company would be likely to fail".

However, a spokesman for Clark denied the chairman made such a statement.

The letter was sent by four directors, in preparation for the extraordinary general meeting on October 16.

The rebel board members are proposing to replace Mr Dickson, only the second non-family chairman in 167 years, and Mr James Power, a non-executive director.

Spie expects to reduce losses

By Alice Rawsthorn

SPIE-BATIGNOLLES, one of France's largest construction companies which fell into the red last year, expects to reduce its losses significantly this year after making a lower than expected deficit in the first half.

The company, a subsidiary of the Schneider electrical engineering group, managed to contain its interim loss to FFr91.2m, ($18.8m) against FFr150.5m in the first six months of last year.

Spie attributed the improvement to a reduction in costs following the restructuring of its French construction interests.

The company said yesterday that it expected its loss in the second half to be roughly in line with that of the first.

It also forecast a slight fall in turnover for the full year from FFr22.5bn in 1991 to around FF21bn in 1992, reflecting its withdrawal from unprofitable areas of activity.

Last year, Spie crashed from profits of FFr251m in 1991 into a loss of FFr950m.

This was attributed to the general slowdown in France's construction industry and losses on the company's work on the Channel Tunnel project.

PACIFIC GAS AND ELECTRIC COMPANY
San Francisco, California

HALF-YEARLY REPORT TO SHAREHOLDERS

CONDENSED STATEMENT OF CONSOLIDATED INCOME
(Unaudited)
(In U.S. Dollars)

	Six Months Ended June 30, 1992	Six Months Ended June 30, 1991
	In thousands (Except per share amounts)	
Operating revenues	$ 4,939,538	$ 4,622,766
Operating expenses	3,536,116	3,427,590
Income taxes	463,314	382,172
Total operating expenses	3,999,430	3,809,762
Operating income	940,108	813,004
Other income	78,077	23,161
Net interest expense	405,347	391,259
Net income	612,838	444,906
Preferred dividend requirement	41,300	46,973
Earnings available for common stock	$ 571,538	$ 397,933
Weighted average common shares outstanding	420,376	418,963
Earnings per common share	$1.36	$ .95
Dividends declared per common share	$ .88	$ .82

(All amounts below are in U.S. dollars.)

Pacific Gas and Electric Company (PG&E) earned $1.36 per share for the six months ended June 30, 1992, compared to $.95 per share for the same period a year ago.

Net income for the six months ended June 30, 1992, was higher than for the comparable period of 1991 mostly due to (1) the 1991 scheduled refueling outage of PG&E's Diablo Canyon Nuclear Power Plant, Unit 1, which began February 1 and was completed April 4; (2) a $26 million ($.06 per share) after-tax write-off in the first quarter 1991 of an investment in a magnesium metal production facility project in Alberta, Canada by Alberta Natural Gas Company Ltd (ANC), a former Canadian affiliate of PG&E's subsidiary, Pacific Gas Transmission Company (PGT); and (3) the second quarter 1992 after-tax gain of $19 million ($.05 per share) from the sale of PGT's 49.98% interest in ANC.

PG&E's Diablo Canyon Nuclear Power Plant, Unit 1, began a scheduled refueling outage in September which will affect net income in the third and fourth quarters of this year.

Qantas advances 209% on eve of privatisation

By Kevin Brown in Sydney

QANTAS, the government-owned Australian airline, yesterday reported a 209 per cent increase in net profit to A$137m ($98.7m) for the year to the end of June, marking a *solid recovery from its earlier* financial problems.

Mr Ralph Willis, finance *minister, said the result under*stated the underlying financial strength of Qantas, which the government wants to privatise early next year.

The recovery in the airline's position was underlined by an improvement in pre-tax operating profit from A$68.9m to A$322m. Revenue increased *from A$3.8bn to A$4bn.*

Mr Bill Dix, Qantas chairman, said the "very encouraging" result was achieved "in a highly competitive environment significantly affected by depressed economic conditions and heavy price discounting in major markets."

Mr Dix said the result should be seen *against a background* of world aviation losses of A$5.5bn in 1991, when several airlines had gone out of business and only a handful had made a profit.

The improvement was largely due to improved productivity following restructuring, and a A$130m reduction in *fuel costs following the end of* the Gulf war.

However, Mr Dix said the *immediate outlook for the* industry was uncertain because of "destructive competition" coupled with continuing world recession, which would limit airline growth.

He said there was nothing to suggest that the industry outlook for the current year was any better than in 1991-92, *especially since many large air*lines had already reported reduced interim profits.

ANSETT Transport Industries, the aviation group owned jointly owned by TNT and News Corporation, may be floated "at some stage in the future," TNT said yesterday.

Mr David Mortimer, who *last week replaced Sir Peter* Abeles as TNT managing director, said that flotation *was a long-term option for* Ansett, which lost A$132m in the year to June.

However, he said Ansett would first have to demonstrate an improved earnings record. Ansett would reduce debt by disposing of non-core activities such as its Hayman Island tourist resort.

News Corporation has said it has long-term plans to sell its 50 per cent stakes in Ansett and Ansett Worldwide Aviation Services an aircraft leasing associate.

Mr Mortimer said AWAS would have to be recapitalised, probably in the next three years, to bolster its competitive position.

In parliament, Mr Willis said preparations for the sale of 49 per cent of the airline to international carriers were proceeding. The government hopes to receive binding offers from British Airways, Singapore Airlines and Air New Zealand by the end of next month.

However, Mr Willis confirmed earlier indications that the *flotation of the remaining* 51 per cent of the airline might not take place in March, as planned, because of weakness in the Australian share market.

Qantas last month completed a A$400m takeover of Australian Airlines, the government-owned domestic airline, in the *first phase of the government's* airline privatisation programme.

Hewlett-Packard to focus on telecoms IT

By Louise Kehoe in San Francisco

HEWLETT-Packard of the US has formed a new worldwide business unit focused upon developing and marketing information technology products for the telecommunications industry.

Formation of the new organisation reflects the group's increased commitment to the telecommunications market, the company said.

"The new business unit's mission is to build, on top of HP's broad computer foundation, advanced telecommunications solutions," said Mr Willem Roelandts, an HP vice-president and general manager of the Computer Systems Organisation.

"Hewlett-Packard will boost *its contribution to the telecom*munications industry by introducing more focused products and services as well as developing strategic alliances to better meet the needs of worldwide customers," he said.

The telecommunications industry spent $14bn on information technology products *and services worldwide last* year and the market is expected to expand to approximately $26bn by 1996, HP said.

The new business unit consists of three product operations, each having worldwide product responsibilities and three geographically dispersed business-development teams in Singapore, France and the US.

These groups will develop and market products for advanced networks, telecommunications network management and customer network management.

HP is already one of the top suppliers of computer products to the telecommunications industry.

It aims to expand its share of the market by developing products that will "enable faster integration of operation support-systems, business support systems and telecommunications networks," said Mr Lewis Platt, an HP executive vice-president.

● *Pyramid Technology, which* designs and makes high-performance open systems servers, has unveiled a restructuring that will result in a charge of between $22m and $24m in the fourth quarter ended September 30, Reuter reports from San Jose, California.

The company said it expec*ted to report a "substantial* loss" for the fourth quarter. Pyramid said it expects revenues for the quarter of $51m, up from $48.6m in the third quarter ended June 30.

Further restrictions on Citicorp disclosed

By Alan Friedman in New York

CITICORP, the leading US bank, yesterday disclosed it could no longer make acquisitions or add to its assets without the approval of federal banking regulators. The bank has seen its share price drop by 5 per cent this week in the wake of reduced profit fore*casts and the surprise resigna*tion of its president.

The restrictions are part of a memorandum of understanding with the Office of the Comptroller of the Currency (OCC) and Federal Reserve that the bank was forced to sign last February, but which was revealed only in August.

The memorandum provided for closer oversight by regulators, especially of Citicorp's internal operating and capital plans. The bank has been selling assets and cutting costs in order to improve its capital-to-assets ratio.

The additional constraint on making acquisitions was dis*closed yesterday by Citicorp in* a securities filing made in connection with a $650m offer of preferred stock. Mr John Morris, Citicorp's spokesman, said he did not regard the latest disclosure as "substantive".

Morgan Stanley, the investment bank leading the preferred stock offer, will today begin making a presentation to investors in New York.

Wall Street analysts say the *stock offer could be affected by* market confusion about the reasons behind the abrupt departure on Monday of Mr Richard Braddock, the Citicorp president, who was a close colleague of Mr John Reed, the bank's chairman. The bank has said that Mr Braddock chose to resign.

*Citicorp also said in its fil*ing that its third-quarter earnings would be in the range of $80m to $100m, or less than half the level previously anticipated by most analysts.

The bank said consumer loan write-offs would remain high at about $870m, while there would also be about $65m of pre-tax charges related to the bank's restructuring programme.

Yesterday, on Wall Street, the bank's share price declined by $⅛ to $14⅝, having already fallen by $¾ on Tuesday.

GM faces threat of new strike

By Martin Dickson in New York

GENERAL Motors, the struggling US vehicle-maker which has suffered two strikes at parts plants over the past five weeks, is threatened with a stoppage at an electrical plant in Anderson, Indiana.

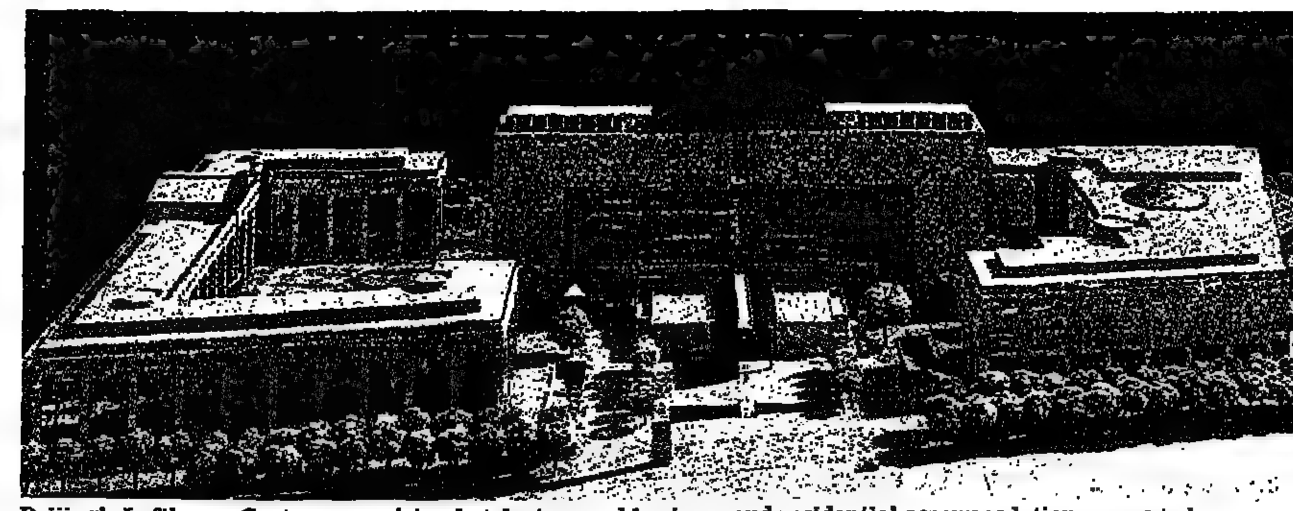
The United Auto Workers union yesterday issued a letter authorising a strike at Inland *Fisher Guide if a dispute could* not be resolved in the next five business days.

A stoppage by Inland Fisher's 3,400 hourly-paid workers could seriously disrupt GM production, since the plant supplies tail lights, parking *lights and other exterior light*ing for most of the group's *North American cars.*

Although the various strikes have particular local causes, they are also seen by analysts as a warning shots to GM by the UAW over job losses.

Lufthansa strengthens its old Chinese ties

By Paul Betts, Aerospace Correspondent



Beijing's Lufthansa Centre, comprising hotel, store and business and residential accommodation, opens today

LUFTHANSA, the German flag-carrier, is attempting to cash in on China's developing aviation boom by strengthening its presence as the largest European airline serving the Chinese market.

Even though Lufthansa is in the throes of sweeping restructuring in Germany to reduce its losses, it is continuing to grow in China with a series of investments.

These range from new direct non-stop flights from Frankfurt, a joint hotel and property *venture in Beijing, and the* expansion of a big aircraft maintenance and engineering venture with Air China.

"Our investment strategy could have seemed somewhat risky and exaggerated two or three years ago," said Mr Werner Hupe, general manager of Beijing's Aircraft Maintenance and Engineering Corporation (Ameco), the biggest western aircraft overhaul and maintenance centre in China, 40 per cent owned by Lufthansa and 60 per cent controlled by Air China. "But it now looks it was the right thing to do," he added.

Unlike other western air*lines, Lufthansa decided not to* reduce its air services to China after the Tiananmen Square riots in June 1989. It also went ahead with ambitious investment plans to build, with Chinese, German and South Korean partners, a DM495m ($351m) hotel and property complex in the Chinese capital, and form the Ameco *aircraft* maintenance venture.

"We always felt the market potential was huge when you consider that China has a population of 1.1bn people," Mr Hupe explained. "Right now, China is the only market where you can sell aircraft."

Domestic air traffic in China has been growing by about 28 to 30 per cent this year over last year. China also recently indicated that it planned to restructure its airline industry and partially open state-owned carriers and airports to foreign investment.

The proposal would see the *Civil Aviation Administration* of China (CAAC) spin off the country's six largest airlines into shareholding enterprises with the possibility of foreign carriers acquiring minority stakes.

Lufthansa, together with Singapore Airlines, British Airways and Hong-Kong-based Cathay Pacific have already expressed interest in either taking a stake in a Chinese carrier or offering these carriers their consultancy services.

The Chinese are placing a big emphasis on developing aviation services. "Aviation is an important business card for *China: if their aircraft operate* on time, look good and are technically sound, they will become an important shop window for the country," Mr Hupe said.

The Lufthansa executive also stressed the importance of building up long-term relations with the Chinese. One reason *for Lufthansa's strong position* in China was the German airline's historical links with the country, he explained.

These links go back to the 1930s when the German carrier set up an airline called Euroasia in partnership with the Chinese government.

It started by providing mail services from Shanghai to inner Mongolia and Europe, but subsequently developed into an airline operating an internal Chinese network which also served Hanoi and Hong Kong.

Although the venture ended in 1940, Lufthansa believes the *experience helped Lufthansa* rebuild a strong presence in China.

The airline is to increase at the end of this month its non-stop weekly flights from Frankfurt to Beijing to four in the face of increasing competition from other European airlines.

Tomorrow, it will also be *opening the new Beijing Luft*hansa Centre, the DM 495m project which includes a luxury hotel run by its Kapinski hotel subsidiary, Beijing's biggest department store, as well as a business centre and residential flats.

Lufthansa originally planned to develop eight similar property developments around the world. The Chinese venture, however, was the only one to survive the airline's recent strategic retrenchment in the face of growing losses caused by the decline in the world airline business.

The German airline is also *expanding its joint venture* Ameco maintenance facility, which employs about 4,000 people, with the construction of a new hangar for the maintenance of Boeing 747 jumbo jets.

The joint venture is the largest commercial aircraft overhaul and maintenance base in China for western jets.

Mr Hupe expects Ameco's workload to continue to grow by about 10 to 12 per cent a year as China increasingly turns to western aircraft powered by western engines.

Although doing business in China will remain difficult and risky, the Lufthansa executive with seven years experience of the Chinese aviation industry said patience was likely to pay off in the long term.

Fujitsu to cut spending, NEC sees losses

By Robert Thomson in Tokyo

FUJITSU, the Japanese computer company, yesterday *confirmed its capital spending* would be below forecast levels, while NEC, the electronics company, may report consolidated net losses of more than Y10bn ($83m) for the first half.

The two companies, and the entire Japanese electronics industry, are under pressure because of a fall in capital spending at home and international weakness in the computer and semiconductor markets. NEC is also suffering in Japan's overcrowded consumer electronics market.

Fujitsu said it would reduce capital spending from a planned Y140bn to Y110bn this year, while research and development spending would be about 8.5 per cent below the original plan. It is also transferring systems engineers to the sales department in an attempt to bolster profits.

The company has forecast net consolidated losses of about Y20bn for the first half to end-September, although it hopes an emergency economic package recently announced by the Japanese government will stimulate sales in the second half.

Meanwhile, NEC said that a Japanese newspaper report that it would incur consolidated losses of more than Y10bn was not necessarily wrong, although the company has not completed its calculation of first-half earnings.

Heavy discounting of computer and consumer electronic *products in the domestic mar*ket has hurt the company, while the recent appreciation of the yen is likely to harm international profitability.

As with other semiconductor-makers, NEC is counting on an upturn in the US market to lift demand and prices, which have fallen sharply over the past two years.

Heinz to buy NZ foods group

By Terry Hall in Wellington

H.J. HEINZ, the US foods group, yesterday completed the deal to buy Wattie Foods, New Zealand's biggest canned and frozen foods group, from Goodman Fielder Wattie (GFW) for NZ$566m (US$308m).

GFW, Australia's biggest foods group, had planned to *sell the Wattie division* through a public share flotation next month, which had been expected to raise NZ$490m.

GFW is to use the money from the Wattie sale to buy Uncle Toby's, a leading Australian cereals company, as part of its strategy to concentrate on baked foods and cereals. It is retaining a some baking and related businesses in *New Zealand which operate* under the Goodman name.

Heinz executives received approvals for the takeover from both the New Zealand Overseas Investment Commission and the New Zealand Commerce Commission earlier this month.

Petersville Sleigh, a division *of the diversified Australian* industrial company Pacific Dunlop, had also expressed an interest in buying a stake in Wattie Foods.

Some analysts believed this was due to Petersville's concerns over the inroads Wattie Foods was making in Australia with a range of baked *beans and spaghetti. Wattie* Foods has taken 15 per cent of the market, which has been dominated by Petersville and Heinz, in the past six months.

Heinz said yesterday it would allow Wattie Foods to compete aggressively against Heinz products in Australia. Both companies would be controlled directly from Heinz' Pittsburg headquarters in the US, but under the existing local management.

Wattie Foods has annual sales of approximately NZ$750m, which compares *with Heinz' global sales of* US$6.58bn.

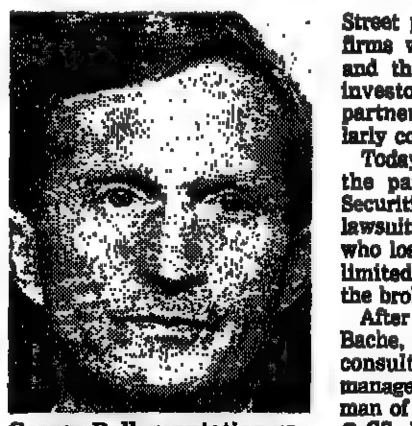
Heinz plans to "grow" Wattie Foods and use its production facilities. This forms part of the Heinz plan to become a greater force in Japan and other parts of Asia. The Wattie name will continue to be used in Australia, Japan and other markets, with new products, including Weightwatchers, to be added to the existing varieties.

Mr Tony O'Reilly, Heinz chairman, said Wattie Foods would provide the US group with an "exciting opportunity" to expand its presence signifi*cantly in the Asian region* using Heinz's expertise in marketing, product development *and global distribution.* Mr O'Reilly said Wattie Foods was one of New Zealand's most respected companies.

One of the main attractions for Heinz in buying the company was the New Zealand economy which had "benefited greatly from government policies which had encouraged free trade and becoming a low cost producer in recent years.

Ball returns to join Smith Barney

By Patrick Harverson in New York



George Ball: reputation as an effective salesman

MR George Ball, the former Prudential-Bache chairman, returned to Wall Street yester*day after a long absence when* he was appointed to a top post at broking house Smith Barney, Harris Upham.

Mr Ball, 53, is joining the firm's executive committee and board of directors. He will be filling a newly-created post of senior executive vice-president with responsibility for developing the marketing strategy for Smith Barney's high net-worth individual investor services, a *cornerstone of the broking* house's business.

The position is likely to have been created to exploit Mr Ball's reputation as an effective salesman and leader of retail brokers, built up during almost 30 years working first at E. F Hutton, and then at Pru-Bache.

Mr Ball's appointment at Smith Barney, part of the diversified financial conglomerate Primerica, comes more than a year and a half after his troubled and controversial nine-year reign at Pru-Bache came to an abrupt end with his resignation in February 1991.

During his tenure at Pru-Bache (now renamed Pruden*tial Securities*), the securities house ran up heavy losses as the ambitious chairman tried *to turn the company into one* of Wall Street's most powerful firms.

Mr Ball's attempt to build a major presence in investment banking, his luring of Wall Street professionals from rival firms with large pay packets, and the aggressive selling to investors of limited property partnerships, proved particularly costly.

Today, *Prudential Insurance*, the parent company of Pru Securities, still faces scores of lawsuits from angry investors who lost millions of dollars on limited partnerships sold by the broking house in the 1980s.

After his departure from Pru-Bache, Mr Ball worked as a consultant to an investment management firm and as chairman of a small finance house.

● CS First Boston (Japan) *plans to strengthen its yen* fixed-income sales and trading department, including the hiring of more staff.

The securities firm wants to increase sales to institutional and regional investors in Japan, as well as foreign investors. To achieve this, the firm intends to improve its research *efforts and hire more traders in* Tokyo.

Currently there are 35 people working in the firm's yen fixed-income department in Tokyo.

Top Magna executives to leave

By Robert Gibbens in Montreal

THREE senior executives who *played a leading role in Magna* International's financial turnround are leaving to become full-time consultants.

But Magna, Canada's biggest independent car parts maker, says it had signed consulting contracts with all three.

The company said its focus was shifting to "operational matters".

Mr David Copeland, Mr James Nicol and Mr Werner Czernohorsky were *respec*tively chief financial officer, vice-president corporate development and chief administrative officer. All three sat on a five-man executive management committee set up in 1990 when Magna faced bankruptcy with growing debt and sliding profits due to the recession.

*Now Magna says it has dras*tically reduced debt and will resume "disciplined growth". For the year ended July 31, profit was C$98m (US$79m) on sales of C$2.4bn.

That sinking feeling in market flotations Down Under

Kevin Brown reports on the jitters now forcing the abandonment of some equity and rights issues in Australia

AUSTRALIA'S financial community is becoming increasingly jittery about the prospects for forthcoming equity issues in the wake of a falling stock market and a series of controversial flotations and rights offers.

The uncertainty was brought to a head last week by the abandonment of a A$2bn ($1.4bn) flotation of the Woolworths retailing chain, owned by Industrial Equity (IEL), a subsidiary of the collapsed Adsteam group.

The board of IEL reluctantly abandoned the flotation after being told by the lead underwriters that there was no prospect of raising more than about A$1.7bn in the current state of the market.

IEL is not alone in having failed to bring an offering to the market in recent weeks. Brokers say Wilson Neill of New Zealand also dropped plans to float its Tasmanian brewery operations after being advised the issue would flop.

Even Foster's Brewing Group, the world's fourth-largest brewer, *has* problems with its A$1bn rights issue. The A$1.10-a-share issue appeared to be deeply discounted when it was announced three weeks ago, *but looks much less* attractive now that Foster's shares have slipped to A$1.16.

The main reason for the uncertainty is the continuing weakness of the Australian share market, with the All Ordinaries Index at 1,455.4 last night, down 13.6 per cent from its peak of 1,684.5 in May.

The weakness reflects Australia's slower-than-expected recovery from recession, combined with uncertainty about the timing and outcome of a forthcoming federal election, and a reduction in demand from overseas buyers.

But confidence has been further undermined by disappointment over several recent equity issues, notably the A$1.2bn flotation of the Government Insurance Office (GIO) of New South Wales.

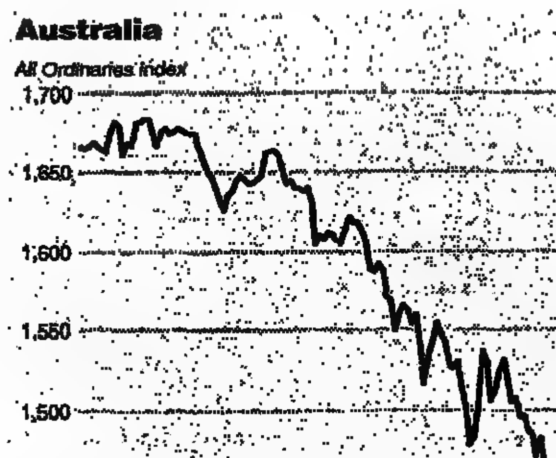
The GIO flotation, which was heavily promoted by the state government, closed A$1bn oversubscribed following unprecedented demand from small investors, who took up *75 per cent of the shares.*

After opening at a small premium, GIO shares have traded at a discount to the A$2.40 issue price, in spite of the *release of improved trading* results. Many investors were also burnt by the weak aftermarket for the A$475m flotation of Australian Consolidated Press, the magazine arm of Mr Kerry Packer's privately-owned media group.

But the greatest contributor to the uncertainty was the failure of a A$1.2bn rights issue by Westpac Banking Corporation, which was 72 per cent undersubscribed, leaving about 17 per cent of issued shares in the hands of the underwriters and sub-underwriters.

The turmoil caused by the Westpac debacle has sufficiently worried the Australian Stock Exchange to prompt a check into the financial health of brokers who participated in the sub-underwriting.

It has also raised questions about the *willingness of corpo*rate investors to participate in future equity raisings. For example, *Pioneer International*, the building products group, says it acquired 12m Westpac *shares at the issue price of* A$3, valued in its books at A$36m, but worth only A$33.2m at last night's closing price of A$2.77.



Pioneer has not ruled out participating in future under*writings, but says the size of* its exposure to Westpac was a "one-off".

So far, Pioneer is the only corporate casualty of the Westpac issue to come clean about its exposure, but brokers say there is no doubt that many others were tempted.

"The Westpac net spread well beyond the *traditional* underwriters into the more adventurous industrial compa*nies, and it is likely that many* of those will not want to participate in equity raisings again," *says Mr David Arch, a director* of the investment banking division of Schroders Australia.

"I think a number of flotations will be put on ice. Smaller flotations will probably still go ahead because people will not be so worried *about those, but the ones* where there is a large volume of stock coming on to the market are going to be very hard to underwrite," he says.

Mr Ralph Willis, the federal finance minister, appeared to concur with this view yesterday when he suggested that the the flotation of Qantas, the government-owned airline, might be delayed beyond the earlier target of March 1993.

There must also be a question mark over other mooted flotations, including Ansett, a *domestic airline owned by TNT* and News Corporation; David Jones, another Adsteam retail*ing subsidiary; the Rural and* Industries Bank, owned by the Western Australia state gov*ernment;* the Channel Seven television network, formerly owned by Mr Christopher *Skase's Qintex group;* and various businesses owned by the governments of New South Wales and Victoria.

In addition, cash-hungry companies, such as the transport group TNT, long rumoured to be considering a A$500m rights issue, may have to find other means of raising capital, such as equity issues *in overseas markets.*

However, not all observers are convinced that there is a rational basis for the uncertainty in Australia. Mr Bruce Rolph, head of research at Barings, says the widespread uneasiness is largely a reflection of the weakness of the stock market, which he forecasts will recover by up to 25 per cent in the next 12 months.

Mr Rolph argues that Westpac, Foster's and Adsteam should all be treated as special *cases: Westpac because of its* poor public image; Foster's and Adsteam because of their *well-known former association* with the failed entrepreneurs Mr John Elliott and Mr John Spalvins.

But even the bullish Mr Rolph thinks the next large issue will need special treatment. "It will have to be deeply discounted because the market is quite sceptical at the moment and the institutions are going to have to be very confident that they will not be left holding undervalued stock," he says.

Belgian and Dutch bonds in favour after rate cuts

By Peter John in London and Patrick Harverson in New York

THE Belgian and Dutch government bond markets were in favour yesterday as both countries cut key short-term interest rates, echoing a similar easing by the *Bundesbank on Tuesday.*

GOVERNMENT BONDS

The Belgian National Bank reduced its seven-day special advances rate by 10 basis points to 8.9 per cent, while the Dutch authorities cut their intervention rate to the same level.

Both were reacting to the strength of their currencies, *and followed the 10 basis point* cut in the latest German repurchase agreement (or repo) tender. Money market rates in Germany have now moved down 30 basis points since the devaluation of the lira and 80 *basis points since early September.*

Dealers said that a Belgian cut had already been factored into bond prices but there was considerable switching out of Germany, and the spread against the bund continued to narrow.

One dealer said the spread had dropped from 112 basis points to 93 points since Tuesday morning and expected traders to start taking profits. *The Belgian benchmark* 10-year government bond firmed 30 basis points to 102.27, with the yield falling to 8.39 per cent.

Dutch bonds opened slightly easier in sympathy with the German market, but speculation that Amsterdam would follow the Belgian rate cut encouraged demand. Then, in late trading, the Dutch central bank said it had lowered its special advances money market rate to 8.9 per cent from 9 per cent for a five-day liquidity pact it will launch at tender *today.*

Subscriptions to the new special advances pact were expected to be open first thing this morning and allocations were to be announced shortly afterwards.

The new *liquidity pact will* replace a three-day facility of Fl 2.5bn expiring before the *start of* trade today. The Dutch 10-year benchmark bond ended the day much as it had begun – it showed a slight fall of 8 basis points at 103.36.

■ IN the German government bond market, cash bund prices slipped one-third of a point as traders took profits after the recent strong rally.

There was also some drag on the government bond from an auction of new 10-year 7.25 per cent bunds which raised DM3.92bn. Dealers were said to be moving into cash, Dutch guilders or Belgian francs.

There was *some* selling of longer-dated bonds and pressure in the futures market after a large German bank was said to have started unloading bund futures. The bund future on Liffe ended the day at 91.04, down from Tuesday's close of 91.38.

■ *LONG gilts* bounced back after a protracted period of weakness, showing a one-point rise as the market pinned its hopes on a keynote speech from the UK chancellor of the exchequer due today.

Mr Norman Lamont is to address the Tory Party conference and, although conference *speeches tend to be occasions* for bland encouragement to the party faithful, dealers hope that the seriousness of the present economic situation will prompt a more pointed response.

Nevertheless, dealers said the risks inherent in remaining outside the ERM, and the pos*sibility of* a jump in the inflation rate, ensured that it was unlikely the yield spread against bunds would narrow significantly from its *present* level above 200 basis points.

There was also some switching out of shorter-dated gilts. The long-dated benchmark gilt gained over a point to 96¼, while the long gilt future *opened three-quarters of a* percentage point higher and traded strongly all day, reaching a high of 95$\frac{15}{32}$. The December short sterling futures contract was steady around 91.82, with the market looking for interest rates of 8.25 per cent by the end of the year.

■ *FRANCE* drew encouragement from hints by the Bundesbank's chief economist that Germany was working to ease rates.

Mr Otmar Issing warned against placing too much reliance on near-term German M3 money supply data – hitherto the leading indicator used by the German monetary authorities. In addition, he said it was regrettable that financial markets had apparently underestimated the decline in short-term German rates over the past three weeks.

French bonds firmed one-third of a point, and the spread against the bund had narrowed by 8 basis points by *midday.* However, a fall in bund prices in the afternoon caused OATs to shed much of their gains.

■ US TREASURY prices fell sharply for the second day running yesterday on a poor seven-year auction and continued disappointment that the Federal Reserve had not cut interest rates.

In late trading, the benchmark 30-year government bond was down $\frac{5}{8}$ at 97$\frac{5}{8}$, yielding 7.480 per cent. The two-year note was also weaker, down ⅛ at 100$\frac{1}{8}$, to yield 3.867 per cent.

Expectations of an interest rate cut were high at the start of the week but, after the Fed failed to act following Tuesday's open market committee meeting, hopes for a rate cut dwindled rapidly, forcing many investors who had bought bonds in anticipation of a policy ease to unload their recently acquired stock.

Prices were also depressed by unexpectedly weak demand for the $9.75bn of seven-year notes auctioned in the afternoon.

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
AUSTRALIA		10.000	10/02	107.8444	+0.304	8.65	8.66	8.76
BELGIUM		8.750	06/02	102.2790	+0.300	8.39	8.62	8.66
CANADA *		8.500	04/02	104.9800	+0.350	7.75	7.29	7.38
DENMARK		9.000	11/00	95.6200	-0.050	9.80	9.61	9.60
FRANCE	BTAN	8.500	03/97	98.8088	+0.038	8.81	9.02	9.29
	OAT	8.500	11/02	98.9100	+0.120	8.65	8.70	8.75
GERMANY		8.000	07/02	103.8350	-0.310	7.43	7.47	7.79
ITALY		12.000	05/02	88.7900	+0.090	14.67†	14.18	14.04
JAPAN	No 119	4.800	06/99	100.7152	-0.052	4.66	4.69	4.86
	No 145	5.500	03/02	104.3479	-0.272	4.83	4.82	4.80
NETHERLANDS		8.250	09/02	103.3600	-0.080	7.74	7.81	8.24
SPAIN		10.300	06/02	80.6000	-0.275	14.05	13.30	12.31
UK GILTS		10.000	11/96	104-30	+2/32	8.54	8.51	8.56
		9.750	08/02	103-20	+11/32	9.17	8.98	9.19
		9.000	10/08	96-06	+1$\frac{1}{32}$	9.46	9.28	8.94
US TREASURY *		6.375	08/02	99-15	-36/32	6.44	6.61	6.58
		7.250	08/22	97-05	-30/32	7.48	7.42	7.38
ECU (French Govt)		8.500	03/02	94.3400	-0.080	9.42	9.40	9.33

London closing *New York closing. Yields: Local market standard
† Gross annual yield (including withholding tax at 12.5 per cent payable by non-residents.)
Prices: US, UK in 32nds, others in decimal. *Technical Data/ATLAS Price Sources*

CFTC confirmed as US futures market regulator

Laurie Morse on new rules and exclusions passed by Congress

AFTER a three-and-a-half-year battle, the US Commodity Futures Trading Commission is finally about to get a new *lease of life.* The Futures Trading Practices Act is set to pass into law this week, reauthorising the regulator for another two years.

Congress voted in favour of the bill – one of the few important pieces of securities legislation this year – on Friday, with the the Senate expected to ratify it later this week.

Besides confirming the CFTC as regulator of the US futures exchanges, the bill specifically excludes over-the-counter swap and hybrids markets from the CFTC's remit. It also introduces stronger protections for customers of US futures exchanges.

In an interview, Mrs Wendy Gramm, chairwoman, said the bill would bolster US competitiveness in global derivative markets, and would allow US futures exchanges to uphold their reputation as financial innovators.

Mrs Gramm spoke strongly in favour of free markets that have a minimum of regulation. "What this [Act] does first is put to rest uncertainty in the regulatory system internationally. Now we can all focus on developing innovative new products," she said.

"One thing is that it gives us more flexibility. We will be able to provide appropriate exemptions for certain products. This is important because we don't want to stifle innovation," she added.

The legislation affirms previous CFTC rulings that over-the-counter instruments such as swaps and hybrid instruments are not futures, *and so are not subject to CFTC* supervision.

Mrs Gramm rejects claims that this leaves the OTC markets totally unsupervised. "They may not be regulated directly by a government agency, but the banks and other institutions trading these products often are regulated," *she said.*

According to Mrs Gramm, the exemptions in the bill will also allow US futures exchanges more freedom to develop new products and trading systems without regulatory hinderances.

In the past, for example, CFTC rules requiring futures *trades be made openly and* competitively had hindered exchanges who wished to implement block trading procedures in their stock index futures pits. The Chicago Mercantile Exchange did manage, after long negotiation with the CFTC, to design large order execution procedures for *its S&P 500 stock index futures.* Under the new rules, those procedures can be made less cumbersome, and might apply to other contracts and exchanges.

The new legislation also allows US futures exchanges to keep day-to-day margin-setting authority for stock index futures, with the CFTC and the US Federal Reserve gaining powers to determine margins in emergency *situations.*

The reauthorisation debates have allowed Congress to impose tighter trade practice rules on the big US futures exchanges. The new bill directs the CFTC to require closer trade-tracking to detect and deter trading floor abuses. It increases monetary penalties for CFTC rule violations, and it requires futures exchanges to distribute records of its disciplinary actions against members more broadly.

It also contains provisions against insider trading and "dual" trading, and prohibits floor brokers from engaging in the potentially abusive practice of executing customer orders with their own business partners.

Chinese prepare 13 share issues

THIRTEEN companies in south-east China's Fujian Province are expected to offer shares by the end of the year, AP-DJ reports from Hong Kong.

Although the amount of shares to be offered is yet to be finalised, *they will include A* shares, which are for domestic investors, and B shares reserved for overseas investors, according to an official report. The shares will be listed on stock exchanges in Shenzhen and Shanghai.

An official of the Fujian Trust and Investment Corporation of the People's Construction Bank of China, said the province would adopt a new method to distribute share application forms following rioting in August when Shenzhen sought to make available applications for a chance to purchase shares.

Buyers start to respond to wide yield spreads

By Tracy Corrigan

THE dramatic widening of Eurodollar bond spreads slowed yesterday as investors started to buy paper again. The differential between Eurodollar bond yields and US Treasury *yields has widened by about 30* basis points since last month. Dealers said spreads were at their widest point since early 1990, having reached historically tight levels earlier this year.

INTERNATIONAL BONDS

For example, Ontario's $2bn five-year *issue launched last* month at a spread of 48 basis points over the comparable Treasury yield is now trading at a spread of 77 basis points.

However, deals in the secondary market appeared to have found some support yesterday, mainly provided by asset-swapping. At these wider spreads, bank investors can swap fixed-rate bonds for floating-rate assets at attractive *margins above the London* interbank offered rate. For example, Italy's 8⅜ per cent bonds due 2001, currently yielding some 126 points over the US Treasury yield curve, can be swapped into floating-rate assets which pay around 85 basis points above Libor.

The turmoil in the world's currency and other financial markets, which has encouraged investors to pull back, *lies behind the deterioration in* Eurobond spreads. But other factors are at work.

In particular, last month's change in Italian tax rules – which means that Eurobonds issued by Italy, the World Bank and the European Investment Bank no longer command favourable terms in the repo market – loosed billions of dollars of bonds on an already soggy secondary bond market.

The tax rules had caused *such Eurobonds to* trade at artificially tight spreads, which in turn had held in spreads of other sovereign and supranational paper.

Further, the expectation of a surge in issuance by European sovereign borrowers needing to *replenish foreign exchange* reserves has also depressed sentiment.

In the floating-rate sector, Asfinag, the Austrian railway, launched at $200m five-year issue of notes, via UBS Phillips & Drew.

Elsewhere, Chrysler Credit Canada launched the first Eurobond issue backed by *Canadian assets. The C$300m* deal, backed by loans made by Chrysler to car dealers, was arranged by Morgan Stanley. The deal is privately placed and details are undisclosed.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
US DOLLARS						
Asfinag(d)‡	200	(d)	99.88	1996	15/10bp	UBS P&D
D-MARKS						
Eurofima	200	7.5	101.125	2002	1¾/1½%	Deutsche Bank
BNL(a)‡	75	(a)	99.9	1995	-	Hesse Newman
SWISS FRANCS						
Matsuo Bridge Co.(b)♦☆☆	35	3	100	1996	-	Swiss Bank Corp.
Sakai Ovex Co.(c)♦☆☆	30	4	100	1997	1⅝/1½%	*Nikko Bk(Switz.)*

Final terms and non-callable unless stated. ☆☆Private placement. §Convertible. ♦With equity warrants. ‡Floating rate note. a) Coupon pays 6-month DM Libor. b) Final terms fixed on 12/10/92. c) Coupon payable semi-annually. Final terms fixed on 13/10/92. Callable and putable on 31/3/95 at 108⅞%. Callable from 31/9/95 at 101½% declining by ½% semi-annually. d) Coupon pays 10bp below 3-month Libor.

MARKET STATISTICS

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Closing prices on October 7

U.S. DOLLAR STRAIGHTS — Issued, Bid, Offer, Chg. day, Yield | OTHER STRAIGHTS — Issued, Bid, Offer, Chg. day, Yield

DEUTSCHE MARK STRAIGHTS | FLOATING RATE NOTES

SWISS FRANC STRAIGHTS | CONVERTIBLE BONDS

YEN STRAIGHTS

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day.
FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate (three-month §above mean rate) for US dollars. C.cpn=The current coupon.
CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	71	1	5
Other Fixed Interest	9	5	1
Commercial, Industrial	312	162	950
Financial & Property	189	69	543
Oil & Gas	24	16	45
Plantations	0	0	9
Mines	24	24	99
Others	34	40	33
Totals	663	317	1,685

LONDON RECENT ISSUES

EQUITIES

Issue Price p	Amount Paid up	Latest Renunc. Date	1992 High	1992 Low	Stock	Closing Price p	+or-	Net Div.	Times Cov'd	Gross Yield	P/E Ratio
100	F.P.	–	118	95	Broadgate Inv Trust	95		–	–	–	–
♦	F.P.	–	201	187	Chelsfield Security	188	-2	L2.6	2.9	2.0	20.8
–	F.P.	–	253	96	SHIRESCOT	96		–	–	–	–
–	F.P.	–	31	19	Do Warrants	19		–	–	–	–

FIXED INTEREST STOCKS

RIGHTS OFFERS

a Annualised dividend. b Figures based on prospectus estimates. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. g Assumed dividend and yield. q Earnings based on preliminary figures. u Forecast or estimated annualised dividend rate, cover based on previous year's earnings. x Ex-dividend. F Dividend and yield based on prospectus or other official estimates for 1992-93. H Dividend and yield based on prospectus or other official estimates for 1992. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1991-92. N Dividend and yield based on prospectus or other official estimates for 1992. Q Gross. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma figures. & Issued by way of capitalisation. † Introduction. § Placing price. †† Reintroduction. ¶ Unlisted securities market. ¢ Issued in connection with reorganisation, merger or takeover. pm Price at a premium. ■ Units comprising 4 Ords. and 7 Zero Div. Prefs. and 4 Stepped Pref. Shares.

TRADITIONAL OPTIONS

- First Dealings — Sept. 28
- Last Dealings — Oct. 9
- Last Declarations — Dec. 30
- For settlement — Jan. 11

3-month call rate indications are also shown on this page. Calls in Babcock Intl., J. Bibby and Oliver Res. Put in Tepnel Diagnostics. Double in RMC.

LIFFE EQUITY OPTIONS

Option		Calls Nov	Calls Feb	Calls May	Puts Nov	Puts Feb	Puts May
Brit Aero (*134)	130	23	31	33	18	28	35
	140	18	27	31	24	33	41
	160	11	21	24	40	46	56

Option		Calls			Puts		
Utd Biscuits (*300)	300	8½	20	26	11	19	27
	330	2½	8½	13	37	40	47
Unilever (*1041)	1000	50	79	96	7	21	26
	1050	19	47	64	25	41	50
Blue Circle (*137)	120	27	32	33	7	10	14
	130	20	26	27	11	13	19
	140	16	22	24	16	20	23
British Gas (*244)	240	11	17	19½	11	13½	19
	260	4	9½	11	25	26	32
Dixons (*204)	200	20	27	34	10	16	18
	220	11	18	25	21	26	28

FT-SE INDEX PUTS

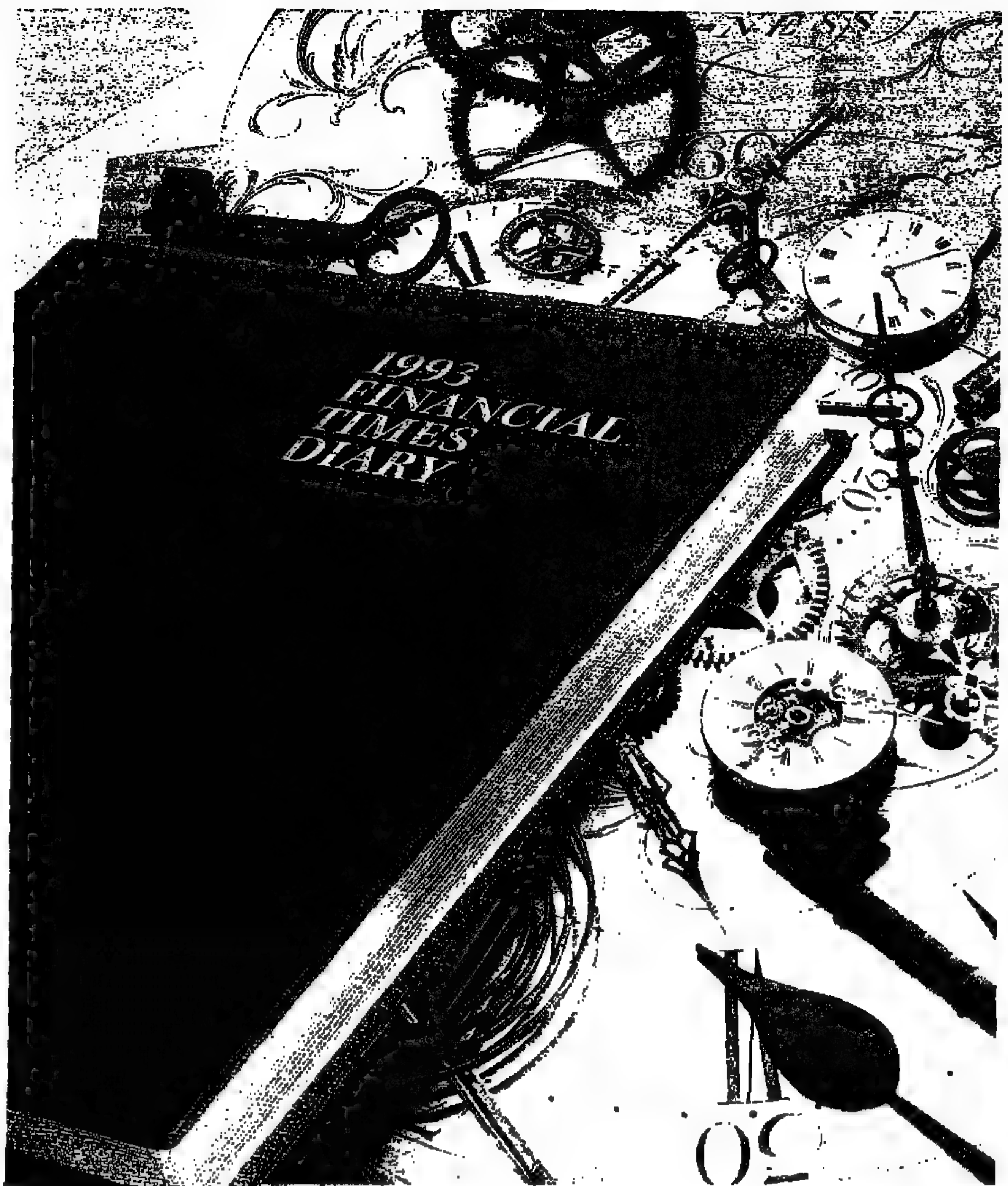
Oct	17	32	59	96	142	192	242	292
Nov	48	65	88	119	157	197	245	295
Dec	57	75	100	125	160	200	245	295
Jan	65	84	107	134	168	205	245	297
Jun †	–	–	–	–	–	–	–	–

October 7 Total Contracts 35,955
Calls 22,296 Puts 13,639
FT-SE Index Calls 12,829 Puts 3,323
Euro FT-SE Calls 2,731 Puts 1,262
*Underlying security price. † Long dated expiry months. Premiums shown are based on closing offer prices.

TRADITIONAL OPTION 3-month call rates

	p								
■ INDUSTRIALS		Cadburys	36	Hanson	15	Ratners	2½	Land Sec.	32
Allied-Lyons	47	Charter Cons.	44	ICI	85	Reed Intl	42	MEPC	22
Amstrad	4	Comm Union	42	Ladbroke	20	Sears	7	■ OILS	
Astec (BSR)	3½	Courtaulds	38	Legal & Gen	27	SmKl Bchm A	34	Aviva Pet	6
BAT Inds	60	Eurotunnel	32	Lex Service	19	TI	26	BP	22
BOC	49	FKI	8	Lloyds Bank	34	TSB	11½	Burmah Castrol	56
BTR	35	FNFC	6	Lonrho	6	Tesco	17	Conroy Pet	5
Barclays	28	Forte	17	Lucas Inds	11	Thorn EMI	56	Gaelic Res	½
Blue Circle	19	GKN	33	Marks Spencer	25	T & N	15	Premier Cons	2½
Boots	31	Gen Accident	40	NatWest Bank	28	Unilever	75	Shell	42
Bowater	58	GEC	17	P & O Dfd	32	Vickers	9	Tuskar Res	½
Brit Aerospace	30	Glaxo	15	Racal Elect	8	Wellcome	71	■ MINES	
British Steel	8	Grand Met	34	RHM	14	■ PROPERTY		RTZ	50
BT	25	GRE	13	Rank Org	42	Brit Land	15		

GILT-EDGED GIFTS FROM THE FINANCIAL TIMES



THE FT DESK DIARY, WITH OVER 100 PAGES OF METICULOUSLY RESEARCHED INFORMATION PRESENTED IN A CHOICE OF THREE SUPERB FINISHES MUST BE YOUR CHOICE FOR 1993.

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THE CONTENTS THAT MAKE IT MORE THAN A DIARY

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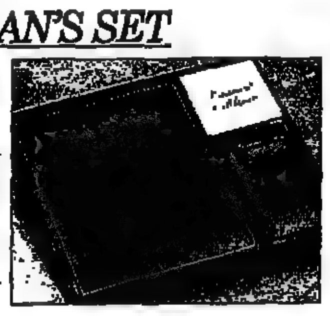

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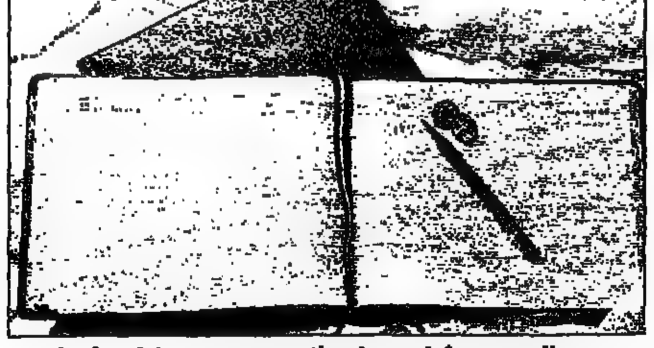

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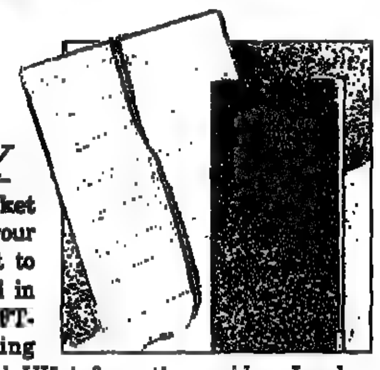

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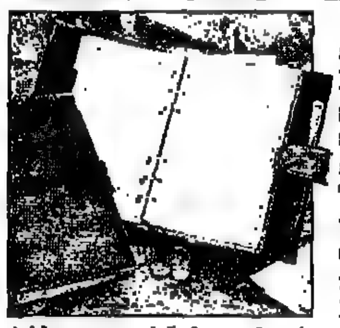

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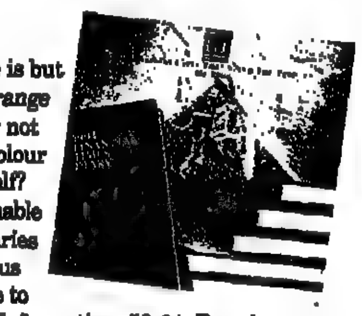

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Hewden Stuart at £6.7m sees gloomy outlook

By Andrew Bolger

HEWDEN STUART, the UK's biggest independent plant hire company, said yesterday it was assuming that there would be little improvement in the economy before 1994.

Sir Matthew Goodwin, chairman of the Glasgow-based group, said the recent collapse of the government's economic policies had brought further uncertainty into the deeply recessionary construction industry.

The six months to July 31 saw pre-tax profits fall by 16.5 per cent to £6.73m (£8.06m) on turnover marginally down from £90.6m to £89m.

Sir Matthew said these results were a "first-class achievement," particularly in view of the drying up of work for the tower cranes division.

These activities lost more than £500,000 in the first half, compared with profits of £1.8m last year, but remained strongly cash generative. In the last three years the number of tower cranes owned by the group has declined from 180 to 80.

Sir Matthew said efforts were continuing to further reduce the tower crane fleet and seek more work overseas, but it would be some time before the division returned to reasonable profits.

Strong cash flow meant that at July 31 cash balances were between £7m and £8m, in spite of spending almost £13m.

The group expects to spend less than £10m in the second half, but said it might exceed that if offered good second-hand equipment at favourable prices.

The remaining hire companies increased both turnover and profits, although bad debt provision was doubled to £1.3m.

Sir Matthew said: "Trading conditions remain very difficult as we approach the winter months and it is obvious that many of our customers are being heavily supported by their bankers and restricting capital expenditure. Unfortunately the construction industry is seeing a serious shortfall in its workload, which must act as more than a counter-balance to the improved situation which could otherwise have been anticipated from a continuing reduction in the amount of equipment available for hire."

Earnings per share fell to 2.39p (2.96p), but the interim dividend was given a nominal increase to 0.875p (0.865p).

COMMENT

Hewden Stuart is a class act – what a pity it has to operate in such a bombed-out industry. Analysts are impressed by the group's ability to generate cash and conservative depreciation policy, which led it to write off £11.85m from operating profits of £18.28m. But things are grim indeed when so staunch a supporter of the Tories as Sir Matthew refers to government policy in such scathing terms. Forecast full-year profits of £11.5m to £12m put the shares on a hefty prospective multiple of about 19. Hewden Stuart will certainly benefit when the gloom eventually lifts from construction, but buyers at this level will have to join the management in taking a long-term view.

See Observer

Renishaw limits fall to 18%

By Richard Gourlay

RENISHAW, the maker of precision measuring probes and inspection equipment, suffered an 18 per cent decline in annual profits due to a sharp fall in sales to its main machine tools markets.

The group managed to limit the impact of the 40 per cent fall in the machine tools market, most of which is now in Japan, by introducing new products, increasing market share and cutting manufacturing costs.

Pre-tax profits for the year to June 30 fell from £11.1m to £9.09m on sales of £44.05m (£45.7m). Earnings per share fell from 16.1p to 13.1p and the recommended final dividend of 4p, makes 6.5p for the year (6p).

Recession in many markets shaved net margins from 18 per cent to 15 per cent. But this hid gross margins that remained resilient before absorbing some input price rises and increased marketing costs.

Net cash rose from £20.23m to £21.49m.

Mr David McMurtry, chairman and chief executive, said there was a flicker of hope for economic recovery in the US, but elsewhere there was not much sign of a recovery.

The continuing decline in the British machine tools and co-ordinate measuring machine markets meant that sales had halved to about 5 per cent of total group turnover.

With the majority of sales outside the UK and many input costs denominated in sterling, Renishaw is likely to gain some benefit from devaluation of the pound.

COMMENT

To all but maintain sales when its crucial Japanese machine tools market has collapsed is a tribute to Renishaw's new product development and fleet of foot. As well as switching its sales effort from original equipment manufacturers to end users, the company has also started to use its own tools to increase its manufacturing efficiency and is spending more R&D on its own product manufacturing techniques. Renishaw is one of the few genuinely innovative British companies and has as a result had to bear very little pressure on gross margins. But it is also a cyclical stock, dependent on recovery in the world capital goods markets. With profits forecast at £11.5m for next year, giving earnings of 16.5p, the implied prospective multiple of 17 suggests rather a lot of recovery is already factored into the price and perhaps too soon.

Allied Leisure falls by 29%

By Richard Gourlay

ALLIED LEISURE, the nightclub and ten-pin bowling operator, yesterday reported a 29 per cent fall in pre-tax profits to £2.21m in the year ended July as leisure spending continued to show no signs of recovering.

The company has yet to sell any of the loss making theme bars which it said earlier this year it was writing off its books with an extraordinary charge of £3.23m.

Since the company's most recent rights issue 18 months ago, the share price has dropped from about 100p to 36p.

Pre-tax profits in the year to July fell from £3.1m to £2.21m on sales up 25 per cent at £37.42m.

Earnings per share fell from 12.2p to 5.26p but the group will pay a final dividend of 3.25p, making a total for the year of 4.75p.

After £13m of capital expenditure on its Megabowl, including two new sites at Preston and Dundee, net debt has risen to £14.3m.

As a result gearing has risen to 51 per cent from 24 per cent last year. Mr Duncan Moss, finance director said the company aimed to maintain gearing below 55 per cent.

Then group has made a £304,000 provision covering future costs relating to the stand-alone theme bars which are to be sold and have been written off in the accounts.

Exeter Trust alters investment policy

By Roland Rudd

EXETER Preferred Capital Investment Trust, which came to the market in January with an unusual structure to invest in the shares of split-capital trusts, yesterday announced a change in investment policy.

A larger part of its portfolio will be invested in income shares, because the gross redemption yields on zero dividend preference shares has fallen from more than 11 per cent to about 10 per cent. Yields on income shares, however, are as high as 20 per cent.

The prospectus estimate of 341p for the net asset value of the ordinary shares at the end of the company's life in 2002 has been revised to 315p. This is because the price of income shares has fallen on fears of higher interest rates and reductions in dividends.

The trust has decided to purchase £15m of its zero debenture stock.

Concern over Gateway as Isosceles refinances

By Maggie Urry

SHAREHOLDERS of Isosceles, the buy-out vehicle for the Gateway food retailing group, will meet today to approve the company's refinancing agreement tied up with its banks in August.

Holders of 95 per cent of the shares have already undertaken to vote in favour of the resolutions.

However, there are concerns that even after this refinancing, the second since the £2.1bn bid for Gateway was completed in 1989, goes through, the group's finances may require further restructuring.

The group's problems stem from its inability to make asset sales to reduce the debt, which stood at £1.26bn at the April 25 financial year end, and from a marked worsening of trading conditions since the original buy-out.

Isosceles is still trying to sell its Herman's Sporting Goods chain of shops in the US and Wellworth food retailing business in Northern Ireland. Negotiations are believed to be at an advanced stage for the sale of Wellworth, expected to recoup more than £125m.

The company maintains that trading, while tough, is no worse than anticipated when talks with bankers began in the spring, and that its new stores – such as Food Giant, Somerfield and SoLo – are showing sales increases.

The latest refinancing involves deferral of £48m of interest on the mezzanine debt, new facilities of £64m once the £48m limit has been reached, conversion of preference shares into ordinary shares and the issue to mezzanine lenders of options to buy up to 20 per cent of the group's ordinary shares at 1p each.

Fags increases stake in Chilean copper mine

By Paul Taylor

ANTOFAGASTA Holdings, which has interests in mining, banking, transportation and water supply in Chile, has increased its stake in the Lince copper mine and high technology treatment plant in Chile.

Antofagasta paid Outokumpu Copper Resources $36m (£20.2m) cash for a further 39.985 per cent stake in Lince, which increases the group's holding in the open-pit mine and its solvent-extraction electro-winning (SX-EW) treatment plant to 99.985 per cent.

SX-EW technology is an increasingly popular low-cost and highly efficient alternative to the traditional smelting process. The purchase of the Lince stake will give Antofagasta full control of the management of the mine and the plant, and enable it to use the treatment plant for processing other ores which it owns.

The Lince mine is in the Antofagasta II region of Chile and has defined reserves of 16m tonnes of oxide copper with an average grade of 1.6 per cent.

The development of the mine and construction of the treatment plant was completed at the end of 1991 and the first trial copper cathodes were produced in January.

During the 1992 second half production will reach a rate of 20,000 tonnes of copper cathodes per year. At the end of last year Lince had net assets of $63.2m.

Decline in earnings from sports goods cuts Grampian Holdings to £2.45m

By Jane Fuller

Trevor Humphries

Bill Hughes, chairman and chief executive of Grampian Holdings (left), and David McGibbon, finance director

A COLLAPSE in first-half earnings from sports goods reduced Grampian Holdings' profit before tax and exceptional items by 40 per cent.

The Scottish mini-conglomerate's share price, which stood at 207p less than a year ago, fell 16p to a five-year low of 90p yesterday.

Pre-tax profit declined from £4.12m to £2.45m before an exceptional profit of £8.34m on the £16.3m sale of Mitre to Genesco, of the US. Turnover slipped to £66.7m (£68.3m).

In the continuing businesses, pre-tax profit was 28 per cent down at £2.44m (£3.37m) on sales of £63.6m (£60.7m). Mitre's contribution was only £10,000 compared with £749,000.

Sports goods accounted for the main decline in ongoing activities, making only £160,000 profit compared with £1.1m – although that was helped by £400,000 of plant and machinery sales.

Profits roughly halved in golf gear and at Patrick, the French supplier of football boots. Mr David McGibbon, finance director, said: "Margins came under pressure as retailers destocked and looked for deals."

Animal pharmaceuticals, the largest division, increased sales to £22.5m (£20.3m) with the help of an acquisition. But pre-tax profit was flat at £3.06m (£3.03m).

Mr Bill Hughes, chairman, said volumes had fallen in some of Grampian's niche agricultural markets, such as sheep dip. Demand from poultry and fish producers had been weakened by imports. The offseting factor was an improved performance in Australia.

Retailing, namely tourist mill shops, repeated its seasonal loss of £1.2m. Transport saw pre-tax profit inch ahead to £942,000 (£922,000).

Mr Hughes said that pharmaceuticals and sports goods had remained under pressure in the third quarter and the tipper side of transport had also weakened. Retailing had enjoyed a 12.4 per cent sales increase.

Interest costs rose to £2.3m (£2.1m) and year-end debt was expected to be £19m (£21m) after the first £12m of the Mitre payment and a £7m acquisition.

Earnings per share fell to 2.61p (4.34p) before exceptionals and rose to 14.7p afterwards. The interim dividend is held at 1.7p.

COMMENT

Grampian triggered last year's bidding scramble for Macarthy, owner of the Savory & Moore retail chain which eventually fell to Lloyds Chemists. In the wake of that ambitious attempt at a hostile bid, the headache has proved painful. In the continuing businesses, the former star performer, pharmaceuticals, is facing rationalisation and redundancy costs. Sports goods has been hit by recession and conditions for transport are worsening. In the accounts, questions have been raised about profits from disposals, capitalisation of R and D costs and the underlying trading performance of what has been an acquisitive company. The share price ought to find a floor at its present yield of 8.1 per cent and prospective p/e of 10.5, on an £8m pre-tax profit forecast. At this level it begins to present a buying opportunity. But with another tough year in prospect, the potential for recovery is long term.

GrandMet in move to expand dough activity

By Guy de Jonquières, Consumer Industries Editor

GRAND Metropolitan, the food and drinks company, yesterday took the first step in a plan to extend to continental Europe the refrigerated dough business of Pillsbury, its US food subsidiary.

GrandMet is acquiring the German refrigerated dough business of Kraft General Foods of the US. The business, which had sales last year of £12m, sells its products under the Knack & Back brand and is market leader in Germany.

The value of the deal was not disclosed, but GrandMet and KGF, a subsidiary of the Philip Morris tobacco group, said it would have no material impact on their shareholders' funds.

Mr Peter Thompson, joint chief operating officer of GrandMet's food division, said the acquisition was an important step in the company's strategy to build a European refrigerated dough business.

GrandMet is understood to be planning to enter other continental European markets, possibly through further acquisitions.

Pillsbury is the largest producer of frozen dough in the US, with annual sales of about $1bn (£500m).

GrandMet launched the product a year ago in Britain, where it is said to have more than 70 per cent of a small but growing market.

F&C launches trust to attract PEP investors

By Scheherazade Daneshkhu

FOREIGN & Colonial, manager of the UK's largest investment trust, yesterday launched a trust aimed at attracting personal equity plan investors.

The PEP Investment Trust (Pepit) has a simple capital structure consisting only of ordinary shares and will be primarily marketed as a qualifying trust for PEPs.

The trust is being launched through an offer for subscription, which means the issue is not underwritten. However, F&C says the minimum of £17m has already been raised. The offer period closes at noon on October 23.

F&C's international general trust, the UK's largest, has total assets of £1.1bn. However, due to regulations which require trusts to keep more than 50 per cent of their assets in the European Community to qualify for the £6,000 yearly allowance, the international general trust is limited to £1,500.

The new Pepit will hold about 80 per cent of its stock in the UK, mostly in companies drawn from the FT-SE 100 index and the rest in Europe, allowing investors to take advantage of the full £6,000 allowance.

The offer price per share is 100p and the maximum number of shares in issue following the offer will be 99.8m.

The investment is balanced between capital and income growth. The annualised gross dividend yield is estimated at 4.5 per cent.

The initial charge is 2.5 per cent, compared to the industry average of between 5 and 6 per cent and the annual management charge is 0.4 per cent.

Pepit will have an indefinite life.

Clyde Petroleum in joint venture

Clyde Expro, a subsidiary of Clyde Petroleum, has formed a joint venture with OMV UK, part of Austrian oil group OMV, to carry out exploration and appraisal work in the UK North Sea.

OMV has subscribed for new shares in a subsidiary of Clyde Expro – to be re-named St James's Oil and Gas – which holds eight North Sea exploration licences. The resulting share holdings in the company give Clyde 45 per cent and OMV 55 per cent.

NEWS DIGEST

BCE moves back into the black

BCE HOLDINGS, the USM-quoted distributor of snooker, billiards and pool products, moved back into the black for the first time since 1988, with taxable profits of £34,000 for the year to March.

This compared with losses of £622,000 previously. Turnover totalled £5.2m (£5.47m).

Interest charges fell to £276,000 (£586,000) and exceptional income increased to £57,000 (£7,000).

Earnings per share of 0.2p compared with losses of 1.65p.

Jenners lifts pay-out as profits rise 15%

Jenners Princes Street, the Edinburgh department store, achieved a 15 per cent profits advance, from £379,000 to £437,000 pre-tax, in the half year to July 31.

The result was struck on turnover up from £13.7m to £15m.

The interim dividend is being raised to 25p (19p).

Computer People runs into loss

Difficult economic conditions on both sides of the Atlantic were blamed by Computer People Group, the computer personnel provider, for pre-tax losses of £135,000 in the six months to June 30.

This compared with previous profits of £669,000 and was struck from revenues of £29.9m (£34.8m).

Losses per share amounted to 0.73p, against earnings of 3.53p, and the interim dividend payment is being trimmed from 2.1p to 0.65p.

The directors said the results included £493,000 of operating costs which were now eliminated.

Deficit near £1m at Select Appts

Losses at Select Appointments (Holdings), the USM-quoted recruitment group, increased from £508,000 to £948,000 pre-tax during the half-year ended June 30. Turnover was £9.8m (£10.08m).

Mr Michael Franks, chairman, said trading conditions continued to be "extremely difficult".

Permanent job vacancies registered with the group fell by 30 per cent. However, Mr Franks said Select actually filled more vacancies during the half than in the comparable period of 1991.

First-half losses per share worked through at 0.44p (2.4p).

COMPANY NEWS: UK

Recession fails to halt advance at Halstead

By Paul Taylor

JAMES HALSTEAD, the Manchester-based floor-coverings, weatherproof clothing and trailers group, continued to defy the recession by posting a 5 per cent improvement in full-year pre-tax profits and by lifting its total dividend by 6.7 per cent.

Pre-tax profits in the year to June 30 grew from £7.65m to £8.04m despite "extremely severe" trading conditions which resulted in only a modest increase in turnover to £58.9m (£58.3m).

Earnings per share rose to 37.71p (36.12p) and a recommended final dividend of 7.5p (7p) makes a 12p (11.25p) total.

An extraordinary provision of £2.93m covered the costs of closing the loss-making Belstaff garment manufacturing operations.

Mr Stephen Knight, finance director, said it had been a year of solid achievement and consolidation for Polyflor, the group's core sheet vinyl and tile floor-covering business which accounts for more than two thirds of group turnover.

The DIY carpet tile business also showed improvement and the Driza-Bone Australian weatherproof clothing business, acquired three years ago, had a successful year.

Conway Products managed to increase camping product sales in both the UK and Holland, helped by a new budget-priced trailer-tent model. As expected, the Belstaff clothing business was closed after its losses accelerated towards the end of last year.

During the year the group spent more than £3m on capital investment, mostly in the floor covering business.

Despite the heavy level of investment and the cost of the Belstaff closure, the group's strong positive cash flow enabled it to further strengthen its balance sheet and end the year with no net borrowings.

A 1-for-1 scrip issue is proposed in order to improve market liquidity for its shares which closed yesterday up 21p at 481p.

COMMENT

Halstead is a good, solid and safe investment in uncertain economic times, but is unlikely to continue to outperform the market so spectacularly when recovery comes. Its core vinyl flooring business faces growing competition and margins are likely to come under increasing pressure, so promised new PVC sheet flooring products will be crucial. Higher raw material prices are likely following sterling's recent plunge, and the overseas manufacturers of the group's motorcycle accessories are pushing for higher prices. But Halstead's growing export business should help offset these pressures. Pre-tax profits of about £8.4m are likely this year, producing earnings per share of around 38p. Halstead is trading on a prospective p/e of 12.6 and is a hold.

French sell water stake

By Peter Pearse

SHARES IN the water sector fell yesterday on the news that Lyonnaise des Eaux Dumez, the French water and construction company, had sold its 8.99 per cent stake in Anglian Water for some £108m. Shares in Anglian itself fell 13p to 417p.

Lyonnaise sold some 26.52m shares at 410p each to Cazenove and Warburgs. They in turned placed the shares with institutions at 415p.

The group sold the shares to maintain a high level of liquidity, said Mrs Christine Morin-Postel of Lyonnaise.

But it was not going to sell North-East Water, Essex Water and Suffolk Water – all of which it owns – since "they are part of our core business."

Lyonnaise sold its stakes in Wessex Water and Severn Trent in November 1990. It had acquired the water company shares shortly after they were floated in December, 1989.

See Lex and Markets

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres-ponding dividend	Total for year	Total last year
Allied Leisure	fin	3.25	Dec 23	3.25	4.75	4.75
Austin Reed	int	2	Dec 1	3	-	6
Burn Stewart	fin	3.33	Nov 18	-	3.33	-
Computer People	int	0.65	Jan 4	2.1	-	5.4
Grampian Hldgs	int	1.7	Nov 13	1.7	-	5.5
Halstead (James)	fin	7.5	Dec 4	7	12	11.25
Hewden Stuart	int	0.875	Dec 12	0.865	-	3.15
Ipeco	int	1.3	Nov 20	1.2	-	3.4
Renishaw	fin	4	Nov 23	4	6.5	6

Dividends shown pence per share net except where otherwise stated. †On increased capital. §USM stock.

Austin Reed slips into red and cuts dividend

By Peggy Hollinger

AUSTIN REED, the upmarket clothing retailer, yesterday reported its first-ever loss and a one-third cut in its interim dividend.

The pre-tax deficit of £430,000 for the 28 weeks to August 8 compared with profits last time of £639,000.

Mr Chris Thomson, finance director, said: "Clearly, in the face of such difficult circumstances, it is only prudent to trim the interim dividend." The pay-out is being cut from 3p to 2p. Losses of 1p compared with earnings of 1.5p

The company's shares fell 5p to 193p despite an improving stock market.

Mr Thomson said Reed was confident of reporting a profit for the full year due to the seasonal nature of the business. Following disposals and closures, Reed was more than ever weighted towards the second half, he said.

Turnover for the six months fell from £35.6m to £28.7m. Some £5m of the decline was due to the sale at the end of last year of Robertson, a Scottish knitwear company. A 10 per cent decline in exports also hit sales.

The disposal accounted for about half of the 11 per cent sales decline in the manufacturing division. Retail, which accounts for 75 per cent of turnover, fell 3 per cent on a like-for-like basis.

Mr Thomson said that despite the sales decline, the company had managed to maintain margins in both manufacturing and retail.

The company's flagship store on London's Regent Street increased sales by 3 per cent, partly due to a higher number of tourists. Regent Street accounts for a fifth of the company's sales.

The south-east of England accounts for about 60 per cent of sales in the company's 38 shops.

Mr Thomson said the company had strengthened its balance sheet, with debt as a percentage of shareholders' funds down from 34 to 24 per cent. Net debt had been cut through the Robertson disposal from £18m to £12.5m.

Ipeco improves 5% to £1.82m

Taxable profits at Ipeco Holdings, the Southend-based aircrew seat manufacturer, rose from £1.73m to £1.82m for the six months to June 27.

The 5 per cent improvement was scored on the back of a 16 per cent rise in turnover to £10.12m. Operating profits rose by 16 per cent to £1.68m.

Earnings emerged at 4.42p (4.14p) and the interim dividend is 1.3p (1.2p).

Self-preservation instinct wins day

Andrew Baxter on the victory of Sir Neville Bowman-Shaw, head of Lancer Boss

Lydia van der Meer

Sir Neville Bowman-Shaw: planning for high-volume

LAST week's victory for Lancer Boss Group in a two-year planning battle with environmentalists marks yet another coup for a man with a reputation as one of Britain's most autocratic industrialists.

Critics describe Sir Neville Bowman-Shaw, chairman and co-founder of the largest UK-owned lift truck producer, as irritable, intolerant, and difficult to work with.

Sir Neville and his brother Mr Trevor Bowman-Shaw own 100 per cent of Boss, which they built from scratch in 1958 to the world's ninth biggest lift truck manufacturer. Sir Neville admits that "people skills" are not his strong point.

But he does claim "a very strongly developed sense of self-preservation". And for Lancer Boss to survive and prosper in the increasingly competitive world lift truck industry, Sir Neville realised that it needed to replace its factories scattered across the Bedfordshire town of Leighton Buzzard with a plant that could function effectively as a high-volume producer.

Sir Neville had made no secret of the alternative if the row over a 95-metre encroachment into the green belt had brought defeat for Boss.

Difficult planning procedures are causing industrialists to relocate on the Continent, he says, and Boss might well have followed suit.

But the Boss chairman has a knack of getting his message across, a useful asset in a country where the manufacturing sector has had to fight increasingly hard to be heard.

Along with many industrialists, Sir Neville has been looking to Mr Michael Heseltine, president of the Board of Trade, to achieve "a better balance" between industry and employment, and the environment. And whatever the involvement of the Department of Trade and Industry, the need to safeguard 600 jobs, and perhaps create 500 more eventually, clearly weighed heavily with Mr Michael Howard, environment secretary.

But, despite being a committed Tory, Sir Neville remains worried about whether the Conservative philosophy of the early 1980s – that economic growth prospects depended more on building the service economy rather than manufacturing – has been laid to rest.

A fan of former prime minister Lady Thatcher, he acknowledges what is, possibly, her blind spot: "She's done so much good, but by God she was wrong about manufacturing." But the root of Britain's manufacturing decline goes much deeper, he says, blaming the legacy of Victorian and Edwardian snobbery about industry.

"There are still houses in this country where I'm asked what I do and the questioners' nose is turned up at the thought of sitting next to an industrialist, not a gynaecologist, a doctor, a banker or a broker. Now in Germany, I'm treated like God Almighty in comparison."

But Sir Neville also criticises "socialist-minded teachers who preach about the rat race and warn that if you don't do well you'll end up in a factory. So you've got both ends attacking us, and it's quite wrong because we're the wealth creators."

It's a situation which, sadly, he cannot see changing quickly.

Much of the company's success boils down to Sir Neville's survival instinct, coupled with what he calls "an irritating ability to judge a commercial design. Although I say it myself I'm quite a good innovator, not just in designing trucks, but in systems and procedures."

He admits that he could not be considered a "people person . . . my worst characteristic is that I can still rile, which is stupid and I regret it. I am afraid of emotion and welfare, and therefore take difficult decisions separately and easily, leaving these issues to personnel."

He objects, however, to being called ruthless, which suggests malice rather than objectivity, and strongly defends a policy which focuses on getting the products right.

Sir Neville has had plenty of opportunity to practice his emotion-free decision-making and to learn from mistakes made during the past 33 years, which nearly ruined the company.

The front axle fell off the brothers' first machine the day after it was delivered, but more than a decade of rapid growth followed.

Then things went badly wrong in 1974 after the company standardised on engines from the then struggling Perkins group and began manufacturing at a grant-aided factory in Peterlee, seriously overstretching a management team based at Leighton Buzzard.

After three rounds of redundancies that virtually halved the workforce, Lancer Boss was cash rich again by 1979, and Sir Neville began looking for foreign acquisitions, realising the necessity for the company's long-term survival of establishing a strong European presence and a broad product range.

Several false starts in the early 1980s ended when the company snapped up Munich-based Steinbock in 1983, followed by Barcelona-based SAM Fenwick in 1987 and a majority stake in Hyco of Milan last year.

Last month Boss bought Manualp, the largest materials handling equipment distributor in central France. And this week HycoBoss, as the Italian company is now called, unveiled three new container handlers.

The Steinbock acquisition has given Sir Neville his most revealing insights about different attitudes to manufacturing and engineering skills in the UK and Germany.

"I would say 45 is the oldest you would want to employ an Englishman because they are poorly educated, and, even worse, badly trained vocationally," he says.

"A man lacking vocational knowledge will often commit himself, full of enthusiasm, to a project, and then fail. In contrast, it is more difficult to get the Germans, who are better educated, to accept a plan, but once they do they know enough to achieve it."

The difference might explain why Boss has historically suffered badly in the UK from high staff turnover, especially among middle-aged managers.

But Sir Neville maintains that the company is now recruiting better and improving training, and makes no apology for giving his managers a rough ride: "It's no use me, at the age of 62, being prepared to change, if some 30-year-old is beginning to think about his pension."

Burn Stewart meets flotation forecast with rise to £10.34m

By Philip Rawstorne

BURN STEWART Distillers, the Scotch whisky producer, increased pre-tax profits from £8.23m to £10.34m for the year ended June 30. The 26 per cent advance matched the forecast made by the company when it came to the market last November.

Its shares closed 8p higher yesterday at 129p, compared with the flotation price of 140p.

Earnings per share of 13.2p, marginally higher than forecast because of a lower than expected tax charge, were unchanged from 1991 because of the greater number of shares in issue.

A final dividend of 3.33p will be paid.

In spite of difficult trading conditions, operating profits rose from £11.44m to £12.47m on turnover 10 per cent higher at £41.95m.

The company, which makes Black Prince whisky and supplies own-label brands to multiple retailers such as Asda, increased the bottled-in-Scotland share of its business.

Gross margins were maintained at last year's levels. Lower volume sales of high-value aged whiskies and some softening of prices were offset by the increased use of the company's stocks of lower cost whiskies.

Mr Bill Thornton, chairman, said that the development of the business would continue to focus on building sales of the bottled-in-Scotland brands.

New distribution arrangements were being introduced in a number of overseas markets and additional marketing and sales staff had been recruited.

The recently-established Russian joint venture, Plodimex, was extending its trading activities in wines and spirits in Russia and eastern Europe. "It has not yet made any material contribution to profits but we regard it as a long-term growth opportunity," Mr Thornton said.

Overall, trading since June had been satisfactory, he added. Prospects for the rest of the year would depend on price levels, but they should be helped by the sterling devaluation.

The company has used part of the flotation proceeds to reduce borrowings from £28m to £12m. Gearing has fallen from well over 200 per cent to 36 per cent, and interest charges, down from £3.21m to £2.13m, are covered 5.9 times.

Ramus shows £2.9m loss as control changes hands

By Katrina Lowe

RAMUS HOLDINGS, the USM-quoted distributor of ceramic tiles and kitchen furniture, yesterday announced sharply increased pre-tax losses of £2.95m for the year to June 30 and a £3m cash injection giving control to a specially created Jersey company.

Guoline Holdings, owned by Malaysian companies Hong Leong Industries and Hume Industries (Malaysia), has agreed to subscribe for 6.5m new ordinary shares at 50p each, giving it 57.5 per cent of the enlarged share capital.

The Takeover Panel has consented to waive conditions which would require Guoline to make an offer for Ramus.

The company said that once the subscription was completed the entire board would resign, with the exception of Mr Lionel Ramus, chairman, and Mr John Ramus. Mr KC Wong would become joint managing director with Mr John Ramus.

The proceeds of the subscription will be used to provide additional working capital and repay £1.5m of bank borrowings.

Ramus said yesterday that trading conditions had become severe in the second half. Force One, distributor of kitchens and bathrooms acquired last December, had produced a disappointing performance and as a result its management had been replaced.

The pre-tax loss, which compared with a £360,000 deficit last time, included £700,000 trading losses from Force One.

Sales were £52.9m (£49.3m). Losses per share jumped to 63.1p (5.1p). There is no final dividend; last year 0.1p was paid.

Dealings in the company's shares were suspended on September 16. The directors expect dealings to resume on Friday.

EC proposes using satellites to spy on fishing

By Lionel Barber in Brussels

THE European Commission yesterday proposed using spy satellites to track fishing vessels suspected of breaching quotas in EC waters.

Surveillance of all boats longer than 10m in length would be phased in from early next year to the end of 1995, according to the Commission.

The idea is to strengthen monitoring of the Common Fisheries Policy (CFP) to protect depleted fish stocks in the face of "chronic overcapacity" of EC fleets, an EC official said.

In addition, the Commission would like to introduce a new licence regime for fishing vessels, applicable to all boats at high sea and in Community and third country waters.

The new licensing regime will apply to all Community and foreign vessels operating in EC waters. The principle of reserved access inside the 12-mile limit would remain intact.

In line with the new emphasis in Brussels on "subsidiarity" – devolving decision-making to the lowest appropriate level – the Commission stressed that member states will be responsible for operating the proposed new regime. However, Commission inspectors would ensure that the CFP rules are applied equitably throughout the Community.

Separately, Mr Manuel Marin, the Spanish Commissioner responsible for the CFP, appears to have retreated from his plan for the Commission to decide the annual break-down of fishing quotas and the total allowable catch (TAC). This would have implied a transfer of power from the Council, a course not acceptable in the present political climate where any move by the Commission to extend its authority is viewed with suspicion.

A Commission official said yesterday that the rules needed to be tightened because it was clear that the regime operating since 1983 was not adequate.

The Commission proposals will be considered in detail at a meeting of EC fishery ministers on October 19. The Commission hopes that the new rules will take effect from 1 January 1993 when the current regime expires.

New Norilsk nickel mines may keep prices low

By Robert Gibbens in Montreal

THERE are several new nickel mines in development in Norilsk in Russia, with good enough grades to offset depletion of some of the area's high-grade deposits, geologists have told a seminar in Sudbury, Ontario.

Norilsk's production of nickel will remain flat for the near future if productivity is maintained. Reserves are estimated at 70 years' production, they said.

Russia is now shipping about 100,000 tonnes of primary nickel to the West yearly, or 15 per cent of total supply, plus some scrap.

Canadian analysts said the Russian statements suggested a recovery in nickel prices is some distance away.

Earlier this week, Inco, the western world's biggest nickel producer, announced production cuts of 18,000 tonnes in 1993, equal to about 3 per cent of annual western consumption. It blamed Russian exports and a fall in stainless steel production.

Falconbridge is expected to announce cuts next week, but a significant gap between supply and demand is expected to continue.

On the London Metal Exchange yesterday, nickel recovered some of its recent losses. Three-month metal built on support above $6,700 a tonne and the possibility that other nickel producers might follow Inco and take measures to cut production.

Hurricane wakes US natural gas futures

The two-year-old NYMEX market has finally come of age, writes Laurie Morse

WHEN Hurricane Andrew swept through one of the richest natural gas producing regions of the US in late August, disrupting production, it spawned another sort of tempest in the two-year-old natural gas futures pit at the New York Mercantile Exchange.

Volume soared, prices climbed to successive contract highs, and every serious player in the natural gas market stayed within sight of their screen. Producers, sensing a bonanza, rushed to price output based on the futures gains, while utilities and industrial natural gas consumers used futures to lock in purchases before winter drove prices even higher.

The scene would not have been unusual had it been set in the NYMEX's big crude oil ring. However, it signaled a rite of passage for the natural gas industry, where futures are a newcomer, and the gentlemanly practice of trading privately and with a handshake has until recently been the fashion.

"All this has happened in the last six months," says Mr Mike Emerson, a trading analyst at New Jersey-based KCS Energy Risk Management. "When natural gas futures first started, there were a lot of physicals people [gas traders] who were avoiding the screen. They said futures didn't have a lot to do with physicals prices. Now everyone is looking at the screen, quoting prices at a differential to futures."

Natural gas futures volume hit a daily record of 32,705 on September 23, and natural gas options – just opened at the NYMEX on October 2 – have had a respectable start-up volume of about 2,000 contracts per day. While small compared with more established US futures contracts, volume is growing steadily, traders say, and "depth" in the pit has become sufficient to swallow large orders without disruptive price movement.

What has happened, traders say, is that the gas market, after languishing since the mid-1980s, has been jolted by volatility. They say this demanded more efficient pricing and that the gradually maturing futures market was in place to meet that demand. Natural gas price volatility this year has rivaled that in crude oil and even foreign currencies, driving dealers to the protection offered by futures, options, and over-the-counter swaps.

In January, at the end of a very warm winter, US gas users found themselves holding burdensome inventories, and futures prices for February delivery skidded to lows near $1.046 per million British thermal units. Cash prices followed. Six months later, the hurricane interrupted Louisiana Gulf deliveries while utilities' inventory levels were historically low and the winter heating season was just around the corner.

NYMEX natural gas futures for October delivery soared to $2.743 per million Btu, a gain of more than 150 per cent from February. While the price disruptions from Hurricane Andrew are viewed as temporary, Richard Kalmas, manager of gas supply for Northern Illinois Public Service Co., which delivers gas to residential and commercial customers in the upper Midwest, says he isn't counting on gas prices easing until early spring.

"We have to buy gas with the anticipation that winter will be normal or colder than normal. Since our first concern is having a secure supply, we can't hope for a warm winter and hold back purchases hoping prices will go down," he said.

Since many utilities are in the same position, and since most are public service companies that can pass gas price increases through to their customers, supply concerns may continue to outweigh sobering price gains in purchasing decisions.

Mr Guy Ausmus, senior energy buyer for Chicago-based Inland Steel, thinks the "emotional" reaction of the futures market to the hurricane added 70 cents to natural gas prices, and he expects prices to level off by spring. Inland regularly uses the gas futures for price protection, and Mr Ausmus says the contract still has some growing to do to service an American market that consumes 53 billion cubic feet of gas per day.

"It has to grow, and this price run-up will do a lot to help it grow," Mr Ausmus said of the futures. "To the extent that it grows, especially now that [NYMEX] has added options trading, this market will become super efficient."

Taiwan gold imports plunge 40%

TAIWAN'S gold imports plunged almost 40 per cent in September from August because of falling demand from industry and individual investors, the Finance Ministry said, Reuter reports.

September imports were 9.31 tonnes worth $102m (£57.30m) compared with 15.45 tonnes worth $174m in August.

Higher prices cut demand from the jewellery and electronics industries but imports are expected to rise before the Chinese New Year.

Slimmer leopard tries to change its spots

Damian Fraser talks to Francisco Rojas, head of Pemex, Mexico's state oil company

MR Francisco Rojas is an unlikely head of the world's fifth largest, and almost certainly most politicised, oil company. A public accountant by training and nature, he had never worked for an oil company, or in the higher levels of the private sector, or held elective office, when he was appointed head of Pemex in February 1987. He had spent practically all his working life supervising government spending in the budget and finance ministries.

But it was precisely the qualities of a politically loyal, tight-fisted bureaucrat that endeared him to the then president, Mr Miguel de la Madrid, and subsequently to his successor, Mr Carlos Salinas. Pemex, and its union, had a well-deserved reputation for woeful inefficiency, corruption, and over-manning. Mr Rojas was under orders to cut out the fat.

That is just what he has done. The Pemex union has been destroyed, and from being one of the most powerful in Mexico, is now probably the weakest. The collective labour contract has been re-written, giving management carte blanche to do as it likes. Mr Rojas expects to have slashed the workforce to 125,000 this year, from 210,000 workers in 1987.

The company, which explores, produces, refines, and sells oil, gas and petrochemicals, reckons it has cut operating costs by some 20 per cent since 1986. At same time, oil production is around 2.67m barrels a day, up from 2.51m b/d in 1987, while refining capacity has increased.

With labour reforms under his belt, Mr Rojas is now concentrating on the restructuring of Pemex into a corporate holding company and four subsidiaries – exploration and production, refining, gas and basic petrochemicals and petrochemicals. While formally announced a few months ago, the restructuring is the culmination of a long-term (and arguably unachievable) plan: to turn Pemex into a profitable, international oil company, without admitting competition on to its home turf.

"The fundamental philosophy" says Mr Rojas "is the management of all operations under commercial and international terms . . . We have developed a system of prices that we are going to apply across all inter-company contracts." Under the new system, cross-subsidies between subsidiaries will be removed, and thus the performance of each subsidiary can be easily evaluated.

While a system of transfer prices has been tried before, Mr Rojas says it will now be easier. "Before we had to have a system of transfer prices that was unreal, detached, separated from real accounting of transactions between divisions; today we have companies and commercial prices. That is one, that is a huge difference we are dealing with."

Rojas: true believer in a state-run oil industry

Each division will have to publish its results separately, which will be compared with those of international companies. Mr Rojas suggests that eventually investment in a division will depend on its profitability, and thus on the probable return on capital.

Pemex will start this strategy with the petrochemicals division (the only one open to the private sector). Petrochemical plants that are not profitable will be closed, or sold off; those that are, may receive capital. In this way the efficient parts (by international standards) of Pemex could grow, and the inefficient parts be left to fold. An incentive to be competitive would have been established.

The restructuring is above all intended to force Pemex middle management to change its way of thinking. In the past, says Mr Rojas, "there was no criteria of the maximisation of profits, there was no business criteria in the activities of Pemex. What they demanded of Pemex was that it supply effectively all the hydrocarbon needs of the nation and there is no doubt it did it. No doubt.

"Now we have changed. We not only want supplies, but we want international supplies at international competitive prices. Thus we need not only to be effective, but efficient. This is the change in which we are emerged . . . not only thinking how to do things in engineering terms but how engineering things are profitable in business terms."

Of course as long as Pemex remains a monopoly, efficient business-like parts of the company would have to continue relying on the inefficient parts of the chain for providing basic services. In part to overcome this weakness, Mr Rojas is at the same time forcing Pemex to contract out more and more work to domestic and foreign drilling and construction firms. A host of foreign firms are drilling for oil or building platforms for cash (not prohibited by the constitution); others are bidding to build refineries.

Eventually – although Mr Rojas was even vaguer than usual on this – subsidiaries of Pemex might have to compete against private-sector companies to win the business of another arm of Pemex. If so, the Pemex monopoly in effect would have crumbled.

While industry observers of Pemex tend to applaud such declarations of Mr Rojas, many remain sceptical. Mr Rojas fought tooth and nail against Mexico's trade ministry to avoid making oil concessions to the US in the North American Free Trade Agreement. Unlike many members of Mexico's government, he appears to be a true believer in the merits of a national, state oil industry.

Mr Rojas thus appointed a member of the old guard at Pemex to run exploration and production, the most important division. Mr Rojas remains head of the board of each of the four divisions of Pemex, belying the decentralisation of power the new regime is supposed to encourage. The Pemex holding company will continue to allocate resources, evaluate results, and set company strategy for its four subsidiaries.

But Mr Rojas is like all Mexican government officials above all a loyal servant to his president. His given role is to restructure rather than dismantle Pemex, and cut its costs. And in that job, narrow as it may be, he is usually given high marks.

Chinese congress expected to liberalise grain market

THE 14th Chinese Communist Party congress next week is expected to move away from state control of agriculture and endorse the use of free markets in grain, Reuter reports from Beijing.

Diplomats and foreign grain traders expect the government to allow farmers to have more freedom over what to grow. It could also give up its monopoly of the grain trade, allowing domestic private traders to conduct business in China for the first time.

"We hear the congress will decide to liberalise the grain trade – decentralise it completely," one Asian trader said.

A Western economist said: "The farmers could find themselves free to choose what to grow and where to sell it."

The move is expected because recent bumper crops in some provinces have led to tonnes of grain rotting in the open because of inadequate storage, while other areas have had to import because the transport network cannot get the grain where it is needed.

The country is expecting this year's harvest of grain – China's main crop – to reach a record 440m tonnes.

Farmers have suffered from bumper crops because the state-set price for grain drops, and they have turned away from the crucial grain staples to farm lucrative cash crops, frustrating the national planners. Millions of farmers have also left the land to seek jobs in factories.

Vice Premier Tian Jiyun earlier this year called for an end to the government's monopoly on grain purchasing and marketing. He said state control should only be used as an expedient during periods of shortage.

Mr Tian proposed setting up more grain wholesale markets nationwide and experimenting with measures on how to make grain supply management market-sensitive.

Earlier this year, Guangdong province became the first region to free grain prices from government control. Fujian and Jiangsu provinces have since come close to complete deregulation.

WORLD COMMODITIES PRICES

MARKET REPORT

PLATINUM was fixed at its lowest level for nearly a month in London in the afternoon at $356.75 a troy ounce, before recovering ground to the $358 area in late trading. The market declined early on bearish technicals, but the fall gathered pace after sales by a US investment bank as traders focused on a deteriorating economic background. Dealers believe platinum now might be reflecting the falls in base metal markets, where prices have been depressed by fading hopes of global economic recovery. GOLD closed just ahead at $350.75 a troy ounce. The recent decline in LME BASE METALS showed some sign of petering out, which encouraged some modest buying to emerge, and prices closed mixed. But the trend mostly reflected short covering and technical buying, with consumer interests unwilling to chase the markets higher. COPPER finished steady, building on Tuesday's bounce off three-month lows, but showed little inclination to move significantly above $2,300 a tonne for three-month metal. Three-month ZINC moved back above $1,200 a tonne in the afternoon after briefly equalling Tuesday's seven-month low of $1,195 a tonne.

Compiled from Reuters

London Markets

SPOT MARKETS		
Crude oil (per barrel FOB)(Nov)		+ or -
Dubai	$18.25-8.35z	+0.15
Brent Blend (dated)	$20.25-0.35	+0.10
Brent Blend (Nov)	$20.40-0.50	+0.10
W.T.I (1 pm est)	$21.90-1.95z	+.125
Oil products (NWE prompt delivery per tonne CIF		+ or -
Premium Gasoline	$219-221	+2
Gas Oil	$197-198	+2
Heavy Fuel Oil	$100-102	
Naphtha	$191-192	+2
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)♣	$356.75	+0.6
Silver (per troy oz)♣	375.5c	
Platinum (per troy oz)	$359.75	-6.75
Palladium (per troy oz)	$95.75	-0.35
Copper (US Producer)	106.0c	-2
Lead (US Producer)	37.8c	
Tin (Kuala Lumpur market)	15.49r	-0.04
Tin (New York)	291.0c	
Zinc (US Prime Western)	62.0c	
Cattle (live weight)†	107.26p	+0.87*
Sheep (live weight)†♣	74.54p	+3.45*
Pigs (live weight)†	77.35p	+0.46*
London daily sugar (raw)	$227.0w	
London daily sugar (white)	$261.3	-1.7
Tate and Lyle export price	£240.5	-0.5
Barley (English feed)	£131.0	
Maize (US No. 3 yellow)	£140.0	-1.5
Wheat (US Dark Northern)	Unq	
Rubber (Nov)♥	57.00p	+0.25
Rubber (Dec)♥	56.75p	+0.25
Rubber (KL RSS No 1 Oct)	222.5m	
Coconut oil (Philippines)§	$490.0y	+5
Palm Oil (Malaysian)§	$400.0	+7.5
Copra (Philippines)§	$312.5	
Soyabeans (US) ‡	£143.0	+0.5
Cotton "A" index	53.80c	+0.1
Wooltops (64s Super)	405p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb r-ringgit/kg. t-Oct/Dec y-Nov/Dec u-Oct. w-Oct/Nov. z-Nov. †Meat Commission average fatstock prices * change from a week ago ♥London physical. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg. ♣Sheep prices are now live weight prices.

SUGAR – London FOX			($ per tonne)	
Raw	Close	Previous	High/Low	
Dec	194.00	194.00	192.00	
Mar	192.00	194.00	193.00	190.60
May	196.00	196.00	195.00	
White	Close	Previous	High/Low	
Dec	256.80	256.50	256.90	254.00
Mar	256.30	255.00	256.40	253.60
May	260.00		258.70	256.20
Aug	264.50		263.00	262.00

Turnover: Raw 128 (33)lots of 50 tonnes. White 1894 (1011) Paris- White (FFr per tonne): Dec 1248.03 Mar 1266.54

CRUDE OIL – IPE			$/barrel	
	Close	Previous	High/Low	
Nov	20.45	20.35	20.47	20.39
Dec	20.47	20.40	20.50	20.45
Jan	20.45	20.39	20.48	20.45
Feb	20.35	20.31	20.38	20.34
Mar	20.21	20.17	20.27	20.24
Apr	20.12	20.08	20.14	20.13
Jul	19.85	19.84	19.86	19.84
IPE index	20.32	20.38	20.32	

Turnover 16267 (16367)

GAS OIL – IPE			$/tonne	
	Close	Previous	High/Low	
Oct	190.50	189.25	191.50	188.50
Nov	194.50	193.25	195.25	193.50
Dec	196.50	195.75	197.00	195.50
Jan	196.75	195.75	197.00	195.75
Feb	192.75	192.25	193.00	192.00
Mar	186.00	185.50	186.50	185.60
Apr	182.00	181.50	182.25	181.50
May	178.75	178.75	178.75	
Jun	177.75	177.50	178.50	177.75

Turnover 20335 (12786) lots of 100 tonnes

WOOL

Unlike the currencies in which it is traded, wool is maintaining steady price levels in the primary markets. There have been good clearances in Australia this week, with Japan the leading buyer. The relative firmness does not, however, indicate buoyancy in user industries or consumer markets. Price changes in the UK market for tops are again due more to currency movements than to any shift in market conditions. Business is very quiet and the only signs of real improvement are on the export front.

COCOA – London FOX			£/tonne	
	Close	Previous	High/Low	
Dec	689	686	689	678
Mar	715	711	715	701
May	732	728	732	721
Jul	750	744	750	740
Sep	767	762	766	754
Dec	786	789	785	782
Mar	817	816	816	807
May	834	834	833	827
Jul	852		850	847

Turnover: 4015 (5581) lots of 10 tonnes. ICCO indicator prices (SDRs per tonne). Daily price for Oct 6 768.03 (765.77) 10 day average for Oct 7 751.97 (751.05)

COFFEE – London FOX			$/tonne	
	Close	Previous	High/Low	
Nov	834	[illegible]	[illegible]	[illegible]
Jan	844	846	846	832
Mar	852	858	858	849
May	[illegible]	868	856	847
Jul	866		858	855
Sep	870	870	886	861

Turnover:3498 (5227) lots of 5 tonnes. ICO indicator prices (US cents per pound) for Oct.6: Comp. daily 50.48 (49.44) 15 day average 48.26 (47.84)

POTATOES – London FOX			£/tonne	
	Close	Previous	High/Low	
Apr	60.5	62.3	61.0	60.0

Turnover 80 (17) lots of 20 tonnes.

SOYAMEAL – London FOX			£/tonne
	Close	Previous	High/Low
Oct	133.50	133.50	

Turnover 0 (0) lots of 20 tonnes.

FREIGHT – London FOX			$10/index point	
	Close	Previous	High/Low	
Oct	1098	1078	1098	1085
Nov	1130	1110	1130	1123
Dec	1135	1115	1135	1135
Jan	1172	1160	1172	1168
Apr	1215	1200	1215	
Jan	1325		1325	
BFI	1034	1033	1034	

Turnover 185 (334)

GRAINS – London FOX			£/tonne	
Wheat	Close	Previous	High/Low	
Nov	122.00	121.40	122.00	121.60
Jan	125.00	124.60	125.00	124.65
Mar	128.35	127.80	128.35	127.50
May	130.80	130.35	130.80	130.00
Jun	132.00		132.00	
Barley	Close	Previous	High/Low	
Nov	121.15	120.60	121.40	121.00
Jan	125.10	124.50	125.60	124.40
Mar	128.10	127.50	128.50	127.30
May	129.75	129.25	130.00	129.20

Turnover: Wheat 276 (257), Barley 536 (76). Turnover lots of 100 Tonnes.

PIGS – London FOX		(Cash Settlement) p/kg	
	Close	Previous	High/Low
Jan	95.5	95.0	95.0

Turnover:1 (4) lots of 3,250 kg

LONDON METAL EXCHANGE		(Prices supplied by Amalgamated Metal Trading)			
	Close	Previous	High/Low	AM Official	Kerb close	Open interest
Aluminium, 99.7% purity ($ per tonne)					Total daily turnover 41,370 lots
Cash	1196-7	1197.5-98.5		1195-5.5		
3 months	1220-1	1221.5-22	1228/1218	1218-8.5	1219-20	196,057 lots
Copper, Grade A (£ per tonne)					Total daily turnover 31,822 lots
Cash	1321-2	1322-23		1315-5.5		
3 months	1353-4	1355-56	1360/1343	1347-8	1359-60	146,822 lots
Lead (£ per tonne)					Total daily turnover 5,954 lots
Cash	322-3	329-30	323/321	320.5-1.5		
3 months	335-6	341-42	341/324	330-1	335-6	28,043 lots
Nickel ($ per tonne)					Total daily turnover 4,985 lots
Cash	6685-95	6615-20	6625	6625-7		
3 months	6760-5	6690-93	6760/6665	6700-2	6740-5	26,570 lots
Tin ($ per tonne)					Total daily turnover 2,342 lots
Cash	6280-90	6280-85		6285-95		
3 months	6350-60	6350-65	6370/6350	6350-60	6350-60	11,524 lots
Zinc, Special High Grade ($ per tonne)					Total daily turnover 18,573 lots
Cash	1184.5-5.5	1183-85	1185/1184	1185.5-5.5		
3 months	1201.5-2.5	1208-09	1219/1198	1198.5-99	1207-8	64,426 lots

LME Closing £/$ rate: SPOT: 1.7170 3 months: 1.6927 6 months: 1.6700 9 months: 1.6518

LONDON BULLION MARKET (Prices supplied by N M Rothschild)		
Gold (troy oz)	$ price	£ equivalent
Close	350.60-350.90	
Opening	350.00-350.40	
Morning fix	349.50	202.433
Afternoon fix	350.15	202.800
Day's high	350.90-351.20	
Day's low	349.30-349.50	

Loco Ldn Mean Gold Lending Rates (Vs US$)			
1 month	1.87	6 months	2.00
2 months	1.86	12 months	2.09
3 months	1.86		

Silver fix	p/troy oz	US cts equiv
Spot	217.15	375.15
3 months	222.10	376.15
6 months	226.50	381.05
12 months	234.00	387.05

GOLD COINS	$ price	£ equivalent
Krugerrand	349.50-352.50	202.00-204.00
Maple leaf	360.95-363.30	-
New Sovereign	85.00-87.00	49.00-50.00

TRADED OPTIONS				
Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	Oct	Jan	Oct	Jan
1150	61	88	3	7
1200	22	52	12	19
1250	4	28	44	43
Copper (Grade A)	Calls		Puts	
2200	59	127	4	16
2300	23	64	34	54
2400	4	26	108	115
Coffee	Nov	Jan	Nov	Jan
650	184	195		1
700	134	147		3
750	85	103	1	9
Cocoa	Dec	Mar	Dec	Mar
575	115	144	1	4
600	92	122	3	7
625	71	102	7	12
Brent Crude	Nov	Dec	Nov	Dec
2000			6	20
2050	13		17	40
2100	2	18		

New York

GOLD 100 troy oz.; $/troy oz.				
	Close	Previous	High/Low	
Oct	351.0	350.1	350.9	350.6
Nov	351.4	350.6	0	0
Dec	352.2	351.4	352.4	350.5
Feb	353.6	353.0	353.7	352.0
Apr	354.8	354.0	354.6	353.2
Jun	356.2	355.3	355.4	355.4
Aug	357.7	356.7	0	0
Oct	359.3	358.3	0	0
Dec	360.9	359.9	0	0

PLATINUM 50 troy oz; $/troy oz.				
	Close	Previous	High/Low	
Oct	358.5	363.6	361.0	359.0
Jan	356.0	359.6	366.0	353.0
Apr	356.0	357.5	356.9	353.0
Jul	365.0	357.5	0	0
Oct	360.5	360.5	0	0

SILVER 5,000 troy oz; cents/troy oz.				
	Close	Previous	High/Low	
Oct	372.3	373.3	0	0
Nov	373.0	374.0	0	0
Dec	374.5	375.5	375.5	372.5
Jan	375.7	376.7	0	0
Mar	378.0	379.0	378.5	376.5
May	380.2	381.2	380.5	379.0
Jul	382.4	383.4	382.5	381.5
Sep	384.8	385.8	0	0
Dec	388.7	389.7	388.5	389.5
Jan	389.8	390.8	0	0

HIGH GRADE COPPER 25,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Oct	100.70	101.55	100.80	100.65
Nov	101.20	102.00	101.60	101.20
Dec	101.70	102.55	102.25	101.60
Jan	102.20	103.00	102.60	102.20
Feb	102.60	103.35	102.85	102.80
Mar	102.90	103.70	103.35	102.60
Apr	103.00	103.85	0	0
May	103.35	104.15	103.60	103.59
Jun	103.50	104.30	0	0
Jul	103.60	104.40	104.30	104.30

SUGAR WORLD "11" 112,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Mar	8.63	8.56	8.65	8.52
May	8.72	8.65	8.72	8.64
Jul	8.73	8.68	8.75	8.66
Oct	8.72	8.65	8.68	8.65
Mar	8.76	8.71	0	0

CRUDE OIL (Light) 42,000 US galls $/barrel				
	Close	Previous	High/Low	
Nov	21.89	21.81	21.94	21.88
Dec	21.82	21.72	21.84	21.79
Jan	21.75	21.66	21.77	21.72
Feb	21.62	21.55	21.65	21.60
Mar	21.55	21.43	21.50	21.48
Apr	21.39	21.31	21.40	21.35
May	21.27	21.20	21.27	21.25
Jun	21.17	21.10	21.17	21.15
Jul	21.08	21.01	21.08	21.06
Aug	21.00	20.93	21.00	20.98

HEATING OIL 42,000 US galls, cents/US galls				
	Close	Previous	High/Low	
Nov	63.85	63.32	64.15	63.60
Dec	64.62	64.11	65.00	64.60
Jan	64.94	64.51	65.20	64.80
Feb	63.89	63.53	64.10	63.80
Mar	61.43	61.13	61.70	61.55
Apr	59.33	59.08	0	0
May	57.88	57.68	58.00	58.00
Jun	56.93	56.73	57.10	57.10
Jul	56.73	56.58	56.85	56.85
Aug	57.28	57.13	0	0

COCOA 10 tonnes;$/tonnes				
	Close	Previous	High/Low	
Dec	1033	1020	1042	1021
Mar	1077	1064	1088	1066
May	1113	1090	1110	1110
Jul	1140	1128	0	0
Sep	1170	1158	0	0
Dec	1203	1191	0	0
Mar	1241	1225	1248	1237
May	1271	1255	0	0
Jul	1308	1292	0	0

COFFEE "C" 37,500lbs; cents/lbs				
	Close	Previous	High/Low	
Dec	59.60	59.00	59.95	58.60
Mar	61.60	60.80	61.70	60.25
May	65.00	64.25	65.00	63.75
Jul	66.70	65.75	66.70	65.40
Sep	68.15	66.75	68.20	66.60
Dec	70.45	69.15	70.20	70.20
Mar	72.50	71.35	0	0

COTTON 50,000; cents/lbs				
	Close	Previous	High/Low	
Oct	57.90	57.62	58.30	57.50
Dec	53.53	53.20	53.94	53.05
Mar	54.07	53.84	54.50	53.80
May	54.68	54.46	55.20	54.55
Jul	55.23	55.25	55.70	55.20
Oct	56.85	56.05	0	0
Dec	56.25	56.40	56.70	56.42
Mar	57.00	57.00	0	0

ORANGE JUICE 15,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Nov	106.60	107.35	107.50	106.50
Jan	106.60	107.40	108.10	106.60
Mar	107.30	108.00	108.80	107.20
May	107.65	109.45	108.60	107.85
Jul	107.55	109.15	108.10	108.10
Sep	107.15	108.80	108.10	108.10
Nov	107.15	108.80	108.10	108.10
Jan	107.15	108.80	108.10	108.10
Mar	107.15	109.00	0	0

INDICES				
REUTERS (Base: September 18 1931 = 100)				
	Oct.7	Oct.6	mnth ago	yr ago
	1576.5	1575.3	1592.1	1619.2
DOW JONES (Base: Dec. 31 1974 = 100)				
	Oct.6	Oct.5	mnth ago	yr ago
Spot	113.59	113.55	118.67	115.05
Futures	114.94	114.50	115.76	123.14

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel				
	Close	Previous	High/Low	
Nov	530/6	530/6	532/6	529/6
Jan	535/2	537/0	536/0	535/0
Mar	541/2	543/2	544/2	541/0
May	549/2	551/2	552/0	549/0
Jul	558/0	558/4	559/0	556/4
Aug	558/2	561/0	560/0	558/2
Sep	558/2	559/4	562/0	558/2
Nov	564/6	566/6	566/4	564/2

SOYABEAN OIL 60,000 lbs; cents/lb				
	Close	Previous	High/Low	
Oct	18.24	18.12	18.27	18.11
Dec	18.48	18.35	18.53	18.36
Jan	18.67	18.53	18.68	18.56
Mar	18.90	18.77	18.91	18.78
May	19.15	19.01	19.18	19.03
Jul	19.37	19.25	19.38	19.30
Aug	19.46	19.37	19.49	19.42
Sep	19.55	19.46	0	0

SOYABEAN MEAL 100 tons; $/ton				
	Close	Previous	High/Low	
Oct	180.8	183.2	182.5	180.6
Dec	181.7	183.2	183.3	181.6
Jan	182.0	183.4	183.4	181.9
Mar	182.0	183.4	183.4	181.9
May	182.3	183.7	183.5	182.1
Jul	184.1	185.3	185.5	184.0
Aug	184.8	186.0	185.5	184.5
Sep	185.7	187.0	186.5	185.7

MAIZE 5,000 bu min; cents/56lb bushel				
	Close	Previous	High/Low	
Dec	210/6	210/6	212/0	210/4
Mar	219/4	219/4	220/6	219/2
May	225/4	226/0	227/0	225/2
Jul	230/2	230/4	231/4	230/2
Sep	233/0	233/0	234/0	233/0
Dec	236/4	236/4	237/2	236/4
Mar	243/2	242/6	243/2	243/0

WHEAT 5,000 bu min; cents/60lb-bushel				
	Close	Previous	High/Low	
Dec	343/2	345/6	347/0	343/0
Mar	344/4	346/6	347/0	344/4
May	335/4	338/2	339/0	335/4
Jul	316/0	319/0	318/6	317/2
Sep	323/4	324/4	0	0
Dec	333/4	334/4	0	0

LIVE CATTLE 40,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Oct	75.450	75.475	75.475	75.250
Dec	73.225	73.325	73.275	72.975
Feb	71.250	71.450	71.550	71.200
Apr	72.275	72.400	72.400	72.200
Jun	69.350	69.400	69.450	69.200
Aug	67.975	68.075	68.000	67.950
Oct	68.300	68.350	68.400	68.250

LIVE HOGS 40,000 lb; cents/lbs				
	Close	Previous	High/Low	
Oct	42.800	42.800	42.850	42.400
Dec	43.200	43.250	43.300	42.925
Feb	42.050	41.925	42.150	41.775
Apr	40.200	39.950	40.250	39.750
Jun	45.025	44.975	45.100	44.900
Jul	44.900	44.675	44.900	44.600
Aug	43.550	43.550	43.550	43.550
Oct	40.700	40.675	40.700	40.600

PORK BELLIES 40,000 lbs; cents/lb				
	Close	Previous	High/Low	
Feb	38.875	38.800	39.125	38.650
Mar	39.700	38.725	39.000	38.575
May	40.125	40.250	40.200	40.000
Jul	40.400	40.500	40.600	40.400
Aug	39.550	39.500	39.550	0

LONDON STOCK EXCHANGE

Pause for breath in technical rally

By Terry Byland, UK Stock Market Editor

THE TECHNICAL rally in the UK stock market was taken a stage further yesterday, still encouraged by sterling's firmness and by a steady performance from Wall Street. But some doubts crept in when both the FT-SE Index and the stock index future contract failed to move above levels regarded by equity chart analysts as important testing points.

The Footsie recovered another 28.7 points of Monday's 103 point loss, to close at 2,517.1. Trading volume increased, boosted by a 26.5m share placing in Anglian Water and the market buzzed with hints that City offices were alert and that a number of corporate deals were about to be launched.

The £780m cash bid from Hanson for Ranks Hovis McDougall, followed by takeover activity in the leisure sector, has re-alerted traders to the attractions of UK stocks to predators, especially from overseas bidders which have the additional benefit of sterling's effective devaluation. Dealers believed yesterday that a German group may be about to take a hand in the speculative interest in Owners Abroad.

Many of the long-identified bid targets on the Footsie list found themselves in the frame again yesterday, and speculators were also looking at stocks just below the market's top 100 stocks.

Account Dealing Dates		
*First Dealings:		
Sep 21	Oct 5	Oct 19
Option Declarations:		
Oct 1	Oct 15	Oct 29
Last Dealings:		
Oct 2	Oct 16	Oct 30
Account Day:		
Oct 12	Oct 26	Nov 9

*New time dealings may take place from 8.30am two business days earlier.

However, with the UK Conservative government coming under fire at its annual conference, which will be addressed today by Mr Norman Lamont, the chancellor of the exchequer, the big investment institutions remained unwilling to chase shares too vigorously until official strategies on sterling and interest rates become more clear.

Equities benefited from a firmer tone in stock index futures but the Footsie topped out at mid-session after moving to within four points of 2,530, identified by Robin Aspinall at Panmure Gordon, the UK broker, as the level at which either the technical recovery will peter out or the market will stage a renewed advance.

Seaq volume of 545m shares compared with 467.1m on Tuesday. More significantly, stock exchange data showed that retail or customer business remained low on Tuesday, with the £811.5m value figure disappointingly below the £1.2bn plus totals recorded daily since sterling quit the ERM, and the stock market sensed that UK interest rates could be reduced.

Confidence in further cuts in domestic interest rates before the end of the year remained strong enough to support shares in the consumer and retail sectors. But shares in those sectors advanced only modestly and investors sought out bargains rather than chasing prices higher. The best gains came among the blue chip sectors, although support was very selective, and no longer based merely on currency considerations.

Glaxo, out of favour with UK investors recently, found renewed support from the US, although interest died away at the close as trade in New York appeared subdued. The chemical sector was unsettled by bearish reports from a presentation to analysts in London by the chemical division of Shell.

FINANCIAL TIMES STOCK INDICES

	Oct 7	Oct 6	Oct 5	Oct 2	Oct 1	Year Ago	1992 High	1992 Low	Since Compilation High	Since Compilation Low
Government Secs	88.33	88.04	87.72	88.85	89.21	86.76	90.11 (14/9)	85.11 (1/4)	127.40 (9/1/35)	49.18 (3/1/75)
Fixed Interest	102.71	102.31	102.54	103.76	103.98	95.83	106.46 (14/9)	97.15 (2/1)	106.35 (6/7/92)	50.53 (3/1/75)
Ordinary Share●	1847.3	1814.2	1779.3	1852.5	1875.1	1975.7	2149.7 (22/5)	1670.0 (1/9)	2149.7 (22/5/92)	49.4 (26/6/40)
Gold Mines	71.6	69.4	66.6	73.1	73.0	167.3	160.6 (10/1)	65.0 (10/9)	734.7 (15/2/83)	43.5 (26/10/71)
FT-SE 100 Share	2517.1	2488.4	2446.3	2549.7	2572.3	2584.1	2737.6 (11/5)	2281.0 (25/8)	2737.6 (11/5/92)	986.9 (23/7/84)
FT-SE Eurotrack 200	1052.71	1035.93	1010.09	1082.72	1077.67	1154.67	1248.79 (11/5)	1010.09 (5/10)	1246.79 (11/5/92)	838.62 (16/1/91)
●Ord. Div. Yield	4.82	4.89	4.98	4.79	4.74	4.70				
●Earning Yld %(full)	7.01	7.10	7.23	6.98	6.90	7.49				
●P/E Ratio(Net)(☆)	18.08	17.85	17.53	18.15	18.36	16.65				
SEAQ Bargns 5.00pm	18,571	20,646	22,892	26,423	25,704	28,767				
Equity Turnover(£m)†	-	811.5	885.0	1094.4	1437.3	906.44				
Equity Bargains†	-	22,546	25,468	26,629	29,958	27,609				
Shares Traded (ml)†	-	380.2	385.9	583.0	722.6	381.0				

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold mines 12/9/55. Base 1000 FT-SE 100 31/12/83 & FT-SE Eurotrack 200 26/10/90. ☆ Nil 16.77.

Ordinary Share Index, Hourly changes Day's High 1854.8 Day's Low 1829.2

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
1834.3	1834.2	1832.3	1842.6	1852.1	1853.9	1851.8	1846.7	1847.9

FT-SE 100, Hourly changes Day's High 2526.9 Day's Low 2500.4

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
2512.5	2510.5	2502.4	2514.5	2525.3	2526.8	2520.7	2515.1	2516.3

FT-SE Eurotrack 200, Hourly changes Day's High 1055.18 Day's Low 1046.81

Open	11.30 am	12 pm	1 pm	2 pm	3 pm	4 pm
1048.23	1050.66	1054.62	1053.29	1051.26	1048.56	1046.85

GILT EDGED ACTIVITY

Indices*	Oct 6	Oct 5
Gilt Edged Bargains	137.4	152.8
5 – Day average	138.7	134.6

*SE Activity 1974.
†Excluding intra-market business and Overseas turnover.

London report and latest Share index: Tel. 0891 123001. Calls charged at 36p/minute cheap rate, 48p/minute at all other times.

Holiday sector on bid alert

VOLATILITY in the share price of Owners Abroad continued as rumours grew that a bid would be forthcoming from its rival holiday group Airtours. The belief in the market is that it is now a matter not of if, but of when an offer is made, as sources close to both companies indicated that Airtours was the unnamed company which approached Owners three weeks ago and referred to in a statement from Owners on Tuesday. The company said that it had received an approach but that no follow-up had been forthcoming. The two groups are ranked numbers two and three in the package holiday market with a combined share of over 30 per cent; a bid would almost certainly attract the attention of the Office of Fair Trading.

However, Owners is also said to have had talks with the German group LTU, which bought the Thomas Cook travel chain in June. It is thought that Owners was discussing a co-operation agreement, rather than a formal alliance. Some in the market suggested that the German group may become involved as a white knight in the event of a hostile bid. In the meantime, Owners shares, which have been propelled on the back of the takeover speculation, fell back as profit-takers moved in. They ended 6½ off at 70½ in large turnover of 2.9m. Airtours fell 7 to 239p.

Anglian bought deal

The worst individual performance of any Footsie stock came from Anglian Water, whose shares retreated 13, or just over 3 per cent, to 417p, after Lyonnaise des Eaux, the French utilities group, disposed of its near 9 per cent stake in the group.

The stake, some 26.52m shares, was sold by Lyonnaise, in a bought deal operation, to Cazenove, Anglian Water's broker, and Warburg Securities. Lyonnaise sold the stock to the two broking firms at 410p a share. The stock was then placed with institutions at 415p a share, giving the two participating brokers a 5p a share turn on the deal, or a total profit in excess of £1.32m.

The first half of the placing was said to have gone smoothly, although there were hints that the remainder proved much more difficult than had been expected. Some institutions, that were said to have taken up their original allocations were rumoured to have had to sell blocks of other water shares to enable them to take on more Anglian.

Lyonnaise acquired its holding in Anglian in the immediate aftermath of the flotation of the 10 water companies in December 1989. It also built up a 6 per cent stake in Wessex Water and a 7 per cent holding in Severn Trent. Lyonnais sold both these stakes, at a substantial profit, in December 1990, via bought deals executed by Smith New Court.

The other water stocks in the Footsie suffered accordingly, with Thames aggressively sold and finally 9 off at 432p, on 2.8m traded, North West 8 lower at 434p and Severn Trent 4¼ easier at 392p. Of the smaller companies, Welsh Water lost 10 to 454p and South West 7 to 425p.

Shell retreat

Shell Transport delivered another disappointing performance, underperforming the Footsie and the oil sector, after one senior executive from Shell's chemicals division delivered what was described as a cautious address to London analysts. Shell said it saw no upturn in its chemicals business until late 1993.

The presentation was accompanied by a bearish note on Shell issued by County NatWest. Mr Fergus MacLeod at County said: "The market's search for security in the face of turmoil of the past months has pushed Shell's rating up to a high from which there is little conceivable upside, despite its well known operational and balance sheet strength. While the uncertainty continues it will be very difficult for fund managers to decide to lighten holdings, but the simple fact is that Shell has been over-hyped and is over-priced." Shell retreated 9 more to 522p with turnover a hefty 7.3m.

The cautious note struck on the outlook for chemicals held ICI back, the shares dropping 14½ to 1060½p.

Enterprise Oil continued to gain ground, racing up 7 more to 422p, with the Kleinwort buy note and the round of US presentations still finding a ready response in the market. Lasmo, too, attracted considerable support, moving up 5 to 161p.

Profit-taking was seen in Unilever as some in the market felt it had had a good run. Some fund managers switched out of the UK 'plc' shares and into the Dutch 'nvs', arguing that the latter are at a 5.5 per cent discount to the plc equivalent. The shares retreated 21 to 1041p.

Scottish supermarket group Shoprite jumped 46 to 587p following recent presentations by BZW. Asda climbed 2¼ to 36½p as hints were heard that trading was steady and that one leading broking house would be upgrading today.

The 4 per cent drop in new car sales during September triggered a series of profits downgrades in the motor components area of the market. "It's nothing but bad news in the car manufacturing business," said Mr Alistair Stewart at Carr Kitcat & Aitken, the stockbroker. Mr Stewart said he had downgraded his profits estimates "across the board" in the sector to allow for the drop in UK car sales, the problems caused to the German industry by a rampant D-Mark and the production cuts in the US car industry. The Carr downgrades had an impact on GKN, 10 lower at 359p, Laird group, 12 off at 259p and Lucas, 4 off at 88p. Dealers said Lucas had bounced off the bottom as a recent large selling order, apparently executed by Williams de Broe, had been completed.

The market's response to news that General Accident (GenAx)is paying C$165m for Prudential's Canadian direct general insurance business, funded by the issue of 13.5m new shares at 588p a share, was to lift GenAx shares 5 to 510p. Prudential shares moved up 10 to 269p on the news.

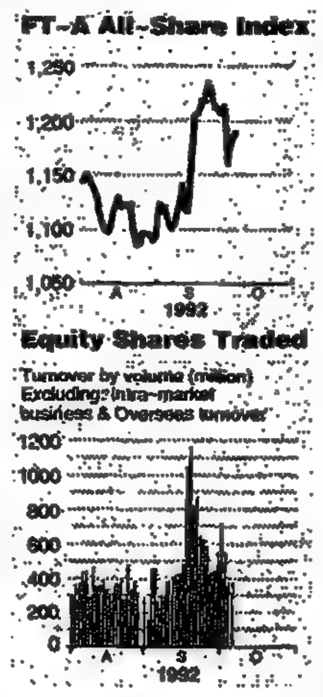
BZW's profits' upgrade coincided with a tightening of the market in Standard Chartered shares, which raced up 31 to 476p on turnover of just 2m shares.

Barclays were again very busy, with 11m shares traded. Dealers said there had been heavy trading in the options market as well as big activity generated by the argument over whether a cut in the dividend is on the cards. The shares rose a penny to 337p.

There was considerable selling by nervous holders of the electricity stocks ahead of a document expected to be published today by the electricity industry watchdog (Offer). East Midland, after confirming its interest in the forthcoming sale of British Coal, dropped 7 to 370p.

MARKET REPORTERS:
Steve Thompson,
Christopher Price.

■ Other market statistics, Page 30.



TRADING VOLUME IN MAJOR STOCKS

Based on the trading volume for a selection of Alpha securities dealt through the SEAQ system yesterday until 4.30pm. Trades of one million or more are rounded down.

EQUITY FUTURES AND OPTIONS TRADING

THE VIEW from the derivatives market took a turn for the better yesterday as the December contract on the FT-SE Index returned to a premium, but volume remained poor as the markets awaited a lead on UK economic strategy, writes Terry Byland.

Confidence was not helped by the progress of the Conservative party conference where government ministers came under pressure.

At the day's peak, the December contract turned back from the 2,571 levels regarded as an important testing point, and some disappointment was expressed by futures strategists. However, in late dealings, the December contract tested this significant benchmark level again, indicating possible support at today's opening.

December closed at 2,557, a rise of 46 on the previous session and a 9-point premium to its fair value of around 32. Volume was 9,139 contracts.

Volume in traded options rose sharply, and the final total of 35,995 contracts compared with only 24,648 on Tuesday. The Euro FT-SE contract recorded 3,993 contracts as traders sought to benefit from trends in European markets. The FT-SE contract traded 16,152, while Barclays topped the stock options list with 5,756 contracts in reaction to downgradings from a French broking house.

FT-ACTUARIES SHARE INDICES

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EQUITY GROUPS & SUB-SECTIONS — Wednesday October 7 1992

FIXED INTEREST

NEW HIGHS AND LOWS FOR 1992

NEW HIGHS (14).

AMERICANS (1) Allegheny & Wstrn., BUSINESS SERVICES (1) Penna, CHEMICALS (1) Halstead (J), ELECTRONICS (1) Racal, FOOD RETAILING (1) Shoprite, HEALTH & HOUSEHOLD (1) [illegible]

LONDON SHARE SERVICE

BRITISH FUNDS

OTHER FIXED INTEREST

AMERICANS

	Notes	Price £	+ or -	1992 high	low	Mkt Cap £m	Yld Gr's
Abbott Labs	h	16 [illegible] xd	− [illegible]	19 [illegible]	14 [illegible]	13,443	2.2
Allegheny & W.		382p	+13	382p	226p	283.7	4.5
Amdahl		479p	−6	1160p	479p	537.9	1.2
Amer Cyanamid		31 [illegible]	− [illegible]	37	28 [illegible]	2,808	3.1
Amer Express		12 [illegible] xd	− [illegible]	18 [illegible]	10 [illegible]	5,786	4.9
Amer T & T		24 [illegible] xd	− [illegible]	25 [illegible]	20 [illegible]	32,186	3.2
Ameritech		36 [illegible]	− [illegible]	40 [illegible]	32½	16,811	5.3
BankAmerica		24 [illegible] xd	+ [illegible]	27 [illegible]	19 [illegible]	8,592	3.1
Bankers NY		36 [illegible] xd	+ [illegible]	37 [illegible]	28 [illegible]	2,864	4.4
Bell Atlantic		27 [illegible]	—	28 [illegible]	23 [illegible]	11,618	5.5
BellSouth		29 [illegible]	—	32 [illegible]	25	14,544	5.4
Bethlehem Steel		6 [illegible] xd	+ [illegible]	9 [illegible]	5 [illegible]	582.3	–
Bowater		1059p xd	−18	1579p	905p	382.8	6.6
CPC	h	26 [illegible] xd	−½	28 [illegible]	22 [illegible]	4,080	2.6
Cadiz Land Inc		128p	—	342p	128p	–	–
California Engy		743p	+15	833p	591p	135.3	–
Chase Manhattan		12 [illegible] xd	− [illegible]	16½	9 [illegible]	1,847	5.7
Chrysler		12 [illegible] xd	+ [illegible]	13 [illegible]	8 [illegible]	3,746	2.7
Citicorp		8 [illegible] xd	−½	11 [illegible]	5 [illegible]	3,808	–
Colgate-Palm		33 [illegible] xd	− [illegible]	34 [illegible]	25 [illegible]	5,288	2.2
Cont'l Bank		985p	+11	1030p	493p	944.8	3.7
Dana		21 [illegible] xd	− [illegible]	24½	14 [illegible]	988.8	4.3
Data General		636p	+5	1084p	394p	170.0	–
Decora Inds		110p	—	122p	66p	–	–
Dun & Brad		33 [illegible]	+ [illegible]	33 [illegible]	27 [illegible]	5,554	4.0
Eaton		45	− [illegible]	46½	32 [illegible]	1,583	2.9
Echlin		11 [illegible] xd	+ [illegible]	11 [illegible]	7 [illegible]	636.2	3.7
FPL		20 [illegible] xd	− [illegible]	21 [illegible]	17 [illegible]	3,703	7.0
Fluor		24 [illegible] xd	+ [illegible]	27	19 [illegible]	1,978	1.0
Ford Motor		21 [illegible] xd	− [illegible]	28 [illegible]	15	10,542	2.7
Gen Elect		43 [illegible] xd	− [illegible]	48 [illegible]	35 [illegible]	37,189	3.2
General Host		307½p	−9½	584p	350p	–	4.1
Gillette		33xd	− [illegible]	34 [illegible]	23 [illegible]	7,239	1.3
[illegible]							

CANADIANS

[illegible]

BANKS

[illegible]

BREWERS & DISTILLERS

[illegible]

BUILDING MATERIALS

[illegible]

BUILDING MATERIALS - Cont.

[illegible]

BUSINESS SERVICES

[illegible]

CHEMICALS

[illegible]

CONGLOMERATES

[illegible]

CONTRACTING & CONSTRUCTION

[illegible]

CONTRACTING & CONSTRUCTION - Cont.

[illegible]

ELECTRICALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONICS

[illegible]

ENGINEERING - AEROSPACE

[illegible]

ENGINEERING - GENERAL

[illegible]

ENGINEERING - GENERAL - Cont.

[illegible]

FOOD MANUFACTURING

[illegible]

FOOD RETAILING

[illegible]

HEALTH & HOUSEHOLD

[illegible]

HOTELS & LEISURE

[illegible]

HOTELS & LEISURE - Cont.

[illegible]

INSURANCE BROKERS

[illegible]

INSURANCE COMPOSITE

[illegible]

INSURANCE LIFE

[illegible]

INVESTMENT TRUSTS

Authorised by the Inland Revenue

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

INVESTMENT COMPANIES

MEDIA

MEDIA - Cont.

MERCHANT BANKS

METALS & METAL FORMING

MISCELLANEOUS

MOTORS

OIL & GAS

OIL & GAS - Cont.

OTHER FINANCIAL

OTHER INDUSTRIALS

PACKAGING, PAPER & PRINTING

PACKAGING, PAPER & PRINTING - Cont.

PROPERTY

STORES

STORES - Cont.

TELEPHONE NETWORKS

TEXTILES

TRANSPORT

WATER

SOUTH AFRICANS

PLANTATIONS

MINES

MINES - Cont.

GUIDE TO LONDON SHARE SERVICE

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- "Tap Stock."
- Interim since increased or resumed
- Interim since reduced, passed or deferred
- Tax-free to non-residents on application
- Figures or report awaited
- Not officially UK listed; dealings permitted under rule 535(4)(a)
- Free annual/interim report available, see details below.
- USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- Not officially UK listed; dealings permitted under Rule 535(2)
- Price at time of suspension
- Indicated dividend yield after pending scrip and/or rights issue.
- Merger bid or reorganisation in progress.
- Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- Unregulated collective investment scheme.

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FT MANAGED FUNDS SERVICE

• Current Unit Trust prices are available from FT Cityline. For further details call (071) 925 2128.

AUTHORISED UNIT TRUSTS

AIB Unit Trust Managers Limited (1000)F

AXA Equity & Law Unit Tst Mngrs (1200)H

Abbey Unit Tst Mngrs (1000)H

Britannia Life Unit Managers Ltd (1200)F

Brown Shipley & Co Ltd (1000)F

MGM Unit Managers Ltd (1000)F

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro

INITIAL CHARGE: [illegible]

OFFER PRICE: [illegible]

BID PRICE: [illegible]

CANCELLATION PRICE: [illegible]

TIME: [illegible]

HISTORIC PRICING: [illegible]

FORWARD PRICING: [illegible]

SCHEME PARTICULARS AND REPORTS: [illegible]

Tel: 071 – 379 – 0444.

FT MANAGED FUNDS SERVICE

● Current Unit Trust prices are available from FT Cityline. For further details call (071) 925 2128.

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Sharp (Albert E.) & Co (1000)F						
Admin: 5 Rayleigh Rd Hutton, Brentwood Essex						
Enquiries 0277 227300 Dealing 0277 261010						
Intl Bond & Conv	5	112.50	113.60	119.80	-1.00	6.14
Pocket Pension	3½	127.9	132.3	136.9	-0.6	-
Smaller Cos	5	50.30	52.15	54.87	+0.13	2.97
UK General	5	102.40	103.30	108.70	+0.10	2.86
Sheppards Unit Trust Mngmt Ltd (1200)F						
1 White Hart Yard, London Bridge SE1 071 407 5966						
Income	5	323.73	323.73	343.15	+4.03	6.02
Global Inc	5	46.63	46.63	49.43	+0.12	4.95
Brit Leaders	5	276.52	276.52	292.95	+3.48	3.48
Intl Leaders	5	145.92	145.92	154.68	-0.13	2.12
Singer & Friedlander UT Mgmt Ltd (1000)F						
European Trust	5	43.39	43.45	46.25	-0.37	2.26
Far Eastern Tst	4	-	-	50.00	-	0.00
Smaller Cos	5	105.5	110.2	117.1	-0.2	3.40
Smith & Williamson Unit Tst Mgrs (1600)F						
1 Riding House St, London W1A 3AS 071-637 5377						
S & W American	5	217.4	217.7	230.3	-4.9	1.03
S & W Capital	5	96.26	97.95	103.3	+0.4	2.03
S & W Cash	0	100.42	100.42	100.42	+0.02	9.98
S & W European	5	97.15	97.55	103.2	-1.9	1.65
S & W Far Eastern	5	93.97	94.68	100.1	-1.2	0.24
S & W Growth	5	103.6	104.7	110.8	+1.0	1.85
S & W Income	3	89.75	91.04	96.33	+0.1	6.21
S & W Magnum	5	101.7	101.7	109.2	+0.4	1.98
S & W Smllr Secs	5	228.8	234.4	248.0	-0.7	1.20
S & W Thomsonflows	5	117.3	117.5	126.0	+0.4	1.91
Societe Generale Touche Remnant (1600)F						
Mermaid Hse, 2 Puddle Dock, EC4V 3AT 071-248 1250						
4 Hourly Pricing ~ 12 Noon Historic						
American Groth	5½	57.66	57.66	61.68	+0.90	0
Eur Sp Sits Acc	5¼	38.07	38.07	40.66	+0.11	0
Eur Sp Sits Inc	5¼	36.00	36.00	38.45	+0.11	0

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Whittingdale Unit Tst Mgmt Ltd (0830)F						
2 Honey Lane, London EC2V 8BT 071-600 0462						
Challenger	2¼	78.07	78.07	79.90	-0.52	0.00
Short Dtd Gilt	1½	101.4	101.4	102.7	-0.1	1.93
Gilt Income	4	48.42	48.42	50.39	-0.07	9.30
Gilt Growth	4	59.14	59.14	61.59	-0.18	0.00
City Reserve	0	54.71	54.71	54.71	+0.02	10.8
Woolwich Unit Trust Managers Ltd (1700)H						
1 White Oak Square, Swanley BR8 7AG 0705 388046						
Stockmarket Fd F	5	55.57	55.60	59.36	+0.81	2.81

OTHER UK UNIT TRUSTS

	Bid Price	Offer Price	+ or -	Yield Gross
Baillie Gifford & Co Ltd				
Inv I Exm Sep 16	530.6	547.51	...	1.27
James Capel Fund Managers Ltd				
Managed Exempt	110.628	117.061	+0.898	4.74
Cent. Bd. of Fin. of Church of England				
2 Fore Street, London EC2Y 5AQ 071-588 1815				
Inv Fund Sep 30	517.80	519.90	-	5.69
Fxd Int Sec Sep 30	144.40	145.00	-	10.00
Deposit Fund: See Money Market Trust Funds.				
Charinco/Charishare (1000)F				
33 King William Street, EC4R 9AS 071-280 2800				
Charinco Inc	164.0	165.8	+0.70	9.89
Charinco Acc	938.5	949.5	+4.20	9.89
Charishare Inc	160.9	164.7	+0.90	4.80
Charishare Acc	204.0	208.8	+1.10	4.80
CAFINVEST–Charities Aid Foundation				

INSURANCES

FT MANAGED FUNDS SERVICE continued on next page

FT MANAGED FUNDS SERVICE

• Current Unit Trust prices are available from FT Cityline. For further details call (071) 925 2128

	Bid Price	Offer Price	+ or –	Yield Gross
Prolific Life & Pensions Ltd				
Stramongate, Kendall, Cumbria LA9 4UB 0539 733733				
Managed Fund see Balanced Growth Managed Fund				
Life Funds				
Balanced Gwth Mngd	568.6	[illegible]	+1.7	–
Adventurous Mngd	132.0	140.5	–0.3	–
Cautious Mngd	111.5	118.7	[illegible]	–
Cash Fd.	311.0	327.8	–	–
Property Fund	216.8	230.7		–
Equity Fund.	633.5	[illegible]	+1.2	–
Fxd Int. Fund	[illegible]	386.6	[illegible]	–
International	286.4	304.7	+0.4	–
High Income	501.5	533.6	+0.6	–
Far East.	379.2	403.5	[illegible]	–
North American	336.2	357.7	+0.1	–
Special Sits.	459.3	488.7	+3.1	–
Technology	330.7	351.9	+2.8	–
Extra Inc Fd	[illegible]	288.6	+1.2	–
[illegible]	130.0	138.4	–0.6	–
American Income	148.6	158.1	–0.9	–
Gilt Fund 20	410.5	436.8	+1.3	–
European Fund.	105.1	111.9	–0.8	–
Pref & Fixed Int.	99.7	106.1	–0.6	–
[illegible]	101.3	106.8	+1.0	–
Recovery Fund.	94.8	99.9	+0.5	–
Equity Income Dist	90.8	96.6		5.25
Managed Dist.	87.7	93.4		5.60
High Yield Dist	94.9	100.0	–0.3	7.88
Pension Funds				
Balncd Gth Mgd Pens Acc	644.9	678.9	+1.1	–
Adventurous Mgd Pens Acc.	133.4	140.5	–0.1	–
Cautious Mngd Pens Acc.	126.5	133.2	+0.2	–
Building Soc. Acc	356.9	375.7		–
Property Pens. Acc.	294.3	309.8		–
Fix Int Pens Acc	574.2	604.5	+1.9	–
Equity Pens Acc	791.0	832.7	–3.5	–
International Pens Acc.	258.9	272.6	+0.8	–
High Inc. Pens Acc	553.4	582.6	+1.0	–
Tech Pens Acc.	223.0	234.8	[illegible]	–
N American Pens Acc.	245.9	258.9	+0.2	–
Far Eastern Pens Acc.	372.4	392.1	[illegible]	–
Special Sits Pens Acc.	377.3	397.4	+3.4	–
Extra Income Pens Fd	330.2	347.6	+1.4	–
Convertible & Gilt Pen.	159.6	168.0	–1.2	–
American Inc Pens	165.3	174.1	–0.6	–
European Pens	116.3	122.5	[illegible]	–
Managed Cash Pens.	168.0	176.9		–

	Bid Price	Offer Price	+ or –	Yield Gross
Reliance Mutual				
Reliance House, Tunbridge Wells, Kent 0892 510033				
Deposit Acc Fd.	165.3	174.0	–	–
Equity Acc Fd.	353.5	[illegible]	+2.3	–
Managed Acc Fd	309.8	326.1		–
Prop Fd (1st Issue)	–	570.1		–
Prop Acc Fd (2nd Iss)	117.0	[illegible]		–
Unit Trust Mn Fd	132.9	139.9		–
RL Pension Funds				
Deposit Acc	238.8	251.4	+0.1	–
Equity Acc.	253.6	266.9	+2.2	–
Fixed Int Acc.	228.8	240.9		–
Gilt Indx Lnk Acc.	173.9	183.0		–
Managed Acc.	332.2	349.7		–

	Bid Price	Offer Price	+ or –	Yield Gross
J Rothschild Assurance PLC				
J Rothschild House, Dollar Street, Cirencester				
Telephone 0285 640302 Helpline 041 307 6500				
Life Funds				
JRA/M&G Managed	99.60	104.9	+0.30	–
[illegible]	95.10	100.2	+0.60	–
[illegible]	101.1	106.5		–
Deposit	98.50	103.7		–
Far East	[illegible]	106.6	–1.30	–
Gilts	97.60	102.8	+0.10	–
Greater European	103.2	108.7	–0.80	–
North American	104.5	110.1		–
UK Equity	98.20	103.4	[illegible]	–
Pension Funds				
JRA/M&G Managed cap.	96.10	101.2	+0.30	–
JRA/M&G Managed acc.	98.60	103.8	+0.40	–
[illegible]	91.50	96.40	+0.70	–
[illegible]	93.80	98.80	+0.70	–
[illegible]	101.1	106.5	–0.10	–
[illegible]	[illegible]	109.1	–0.10	–
Deposit cap.	98.80	104.0	+0.10	–
Deposit acc	101.2	106.6	[illegible]	–
Far East cap.	96.20	101.3	–1.60	–
Far East acc.	98.70	103.9	–1.60	–
Gilts cap	96.00	101.1	+0.10	–
Gilts acc	98.50	103.7	+0.20	–
Greater European cap.	102.2	107.6	–0.90	–

MANAGEMENT SERVICES

OFFSHORE INSURANCES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)

FT MANAGED FUNDS SERVICE

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	Bid Price	Offer Price	+ or -	Yield Gross
Gartmore Fund Managers (IoM)				
Intl. Inc.*	116.5	123.5	-0.2	12.0
*Projected Yield				
John Govett Management (IoM) Ltd				
[illegible]	£16.29		—	—
Paragon Plus Nat Oct 1	£9.17		—	—
Paragon [illegible] Oct 1	£10.60		—	—
SE Asian Wrt NAV Oct 1	$9.77		—	—
Govett Mngd Fun Oct 2	£13.77	15.06	—	—
Govett Mngd [illegible] Oct 2	$9.92	10.84	—	—
[illegible]	$22.50		—	—
[illegible]	$8.40		—	—
[illegible] Oct 2	$8.01		—	—
[illegible] Global Funds Limited				
Intl Stlg Gwth	£18.31	19.28		—
Intl US$ Gwth	$17.84	18.79	-0.24	—
High Income Gilt	£24.38	25.28	-0.42	—
International Equity	£18.18	19.14	+0.01	—
International Bond	£21.33	22.13	+0.28	—
Managed Currency	£26.32	26.59	+0.28	—
Sterling Currency	[illegible]	[illegible]	+0.04	—
US$ Currency	$37.04	38.03	+0.01	—
Irish £ Currency	I£14.84	15.00	+0.09	—
Target International (Isle of Man) Ltd				
[illegible] Offshore Fd	£8.07	8.69	—	—
[illegible] Offshore Inc Fd Ltd	£10.31	11.20	—	—
[illegible]	£8.83	9.18	—	—
LFM Sterling Fd	£10.56	11.00	—	—

JERSEY (SIB RECOGNISED)

	Init Charge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
AIB Fund Managers (CI) Ltd						
PO Box 468 St Helier Jersey						0534 36633
AIB Currency Funds Ltd						
Intl Managed Bond	5		[illegible]	20.8237		—
Managed Capital Bd	5		[illegible]	20.8272		—
AIB Dollar Currency Fund Limited						
Stlg Mngd Currency	5			10.7660		—
Sterling Currency Fd	5			10.4104		—
Ecu Currency	5			10.4322		—
US Dollar Mngd Curr	5			21.3632		—
Barclays International Funds						
PO Box 152, St Helier, Jersey CI						0534 67888

	Bid Price	Offer Price	+ or -	Yield Gross
INVESCO MIM International Limited				
All Funds deal daily except where indicated.				
Sterling Denominated Income Funds				
American Equity Inc	£1.519	1.630	-0.021	2.76
Japan Inc & Gwth	£1.313	1.409	-0.011	2.60
Sterling Denominated Growth Funds				
Capital Deposit	£37.41	37.42	—	—
European Perform	£0.3988	0.4243	+0.0090	—
Far East	£2.175	2.337	-0.011	—
[illegible]	£3.106	3.339	-0.031	—
UK Growth	£1.099	1.182	+0.015	2.39
£ Mng Portfolio	£1.407	1.521	+0.001	—
US Dollar Denominated Growth Funds				
Gold & Prec Mtls	$0.658	0.708	+0.003	—
Japan Performance	$2.073	2.229	+0.002	—
Gtd NW 1996 **	$9.10		—	—
MIM London Agents				
Apollo Fd Oct 7*	SF72.50	77.81	-4.65	—
*Weekly Dealing. †Fortnightly Dlng. **Monthly Dlng.				
Lloyds Bank Trust Co (CI) Mngrs				
[illegible] World Inv Port.	£2.263	2.377		1.34
Management International (Jersey) Ltd				
Anchor Gilt Edge	£9.37	9.42	+0.04	9.98
Minerals, Oils Res. Shrs. Fd. Inc.				
Mores Oct 1	$14.30	14.59	—	2.74
Nat. Westminster Jersey Fd. Mgrs. Ltd				
Sterling Income	50.8	53.0	—	8.84
UK Equity Fd	190.6	206.0	-0.01	3.11
*Intl Bond Fd	93.1	96.0	—	7.93
**Natural Resources Fd	110.3	117.0	—	0.43
*Sterling Mngd Asset Fd	507.6	535.0	—	5.00
*Sub. day every Thurs. **Sub. day monthly 5th and 20th				
NatWest TreaCur Currency Fund				
Dollar Class		$37.4250	+0.0068	—
Sterling Class		£26.5645	+0.0061	—
D-Mark Class		DM52.3040	+0.0277	—
[illegible]		[illegible]	[illegible]	—
Japanese Yen Class		[illegible]	[illegible]	—
Northgate Unit Tst. Mngr. (Jersey) Ltd				
Pacific Fund Oct 1	$33.11	35.20		—
Perpetual UT Mngrs (Jersey) Ltd				
Offshore Intl Gwth Fd	$3.5714	3.7054		—
Offshore American Gwth Fd	$0.9175	0.9751		—
Offshore Am Gwth Fd	$5.7185	6.0774		—
Offshore Emerging Cos	[illegible]	3.5776		—
Offshore European Fd	[illegible]	[illegible]		—

Disa Income Fund

Dresdnerbank Asset Mngmt SA

13 Rue Beaumont, L-1219

Eagle Star – Global Assets Fund

5 Rue Aldringen L-1118

UK Equity; Nth Am Equity; Japanese Equity; Pacific Basin Equity; European Equity; Sterling Bond; US Dollar Bond; Japanese Yen Bd; Deutschmark Bond; Stlg Liquid Assets; US$ Liquid Assets; Japan Yen Liquid Assets; D'mark Liquid Assets; Global Managed; European Bond

EquiFund–Wright National Equity Fd

14 rue Aldringen, L-1118 Lux

Fidelity Funds

Kansallis Hse, Place de l'Etoile; UK-0732 777377

[illegible]

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Small rally in pound

The pound rallied in early trading, but the market was unconvinced that gains against the D-Mark represented a shift in attitude towards the currency, *writes Emma Tucker*.

Much of sterling's recovery reflected technical manoeuvrings as traders closed short positions ahead of an address by Mr Norman Lamont, the chancellor, to the Conservative Party conference today. Traders were not certain he would give a firm indication on the future shape of UK economic policy but in the absence of any other statements will be fixed to their television screens when he speaks today at noon.

"I don't think the strengthening of sterling is a sign that institutional investors are going to turn around and start buying gilts and UK shares," said Mr Avinash Persaud, senior currency economist at UBS Phillips and Drew.

Mr Ifty Islam, currency economist at Barclays de Zoete Wedd, said: "Sterling's move doesn't reflect any change in the fundamental view of the UK and that will continue until we get a slightly firmer policy statement."

The pound closed in London at DM2.4725, up two and half pfennigs on the day. Against the dollar it closed at $1.7170 marginally higher than the previous day's close.

In European trading the dollar benefited from the Federal Reserve's decision not to announce a cut in the discount rate at its federal open markets committee meeting and from softer German money rates.

German call money remained at 8.95 per cent after the Bundesbank injected more liquidity into the system than had been expected. Opinion was divided over whether this represented a signal from the German central bank that it was shifting its monetary stance, or whether the easing was temporary. The dollar rallied in late trading to close up a pfennig at DM1.4400.

The lira also benefited from the slight weakening of the D-Mark across the foreign exchanges, and edged up against the German currency.

Many traders felt the sharp movements in the lira on the previous day had been excessive. There were also fewer scares about the reintroduction of exchange controls flying around the markets. The lira closed at L905 against the D-Mark, up sharply on the previous day's close of L916.2.

Like the pound, however, the outlook for the Italian currency remains uncertain. The market is particularly worried about the possible rejection of the budget package by the Italian parliament.

The Swiss franc tumbled through chart support against the dollar to end sharply lower against the big currencies.

Easier Swiss franc money market rates and news that big Swiss banks had cut rates on their cash bonds weakened the Swiss currency further. It closed against the dollar at SFr1.2585.

£ IN NEW YORK

Oct 7	Close	Previous Close
£ Spot	1.71-1.7110	1.7125-1.7140
1 month	0.89-0.88pm	0.94-0.93pm
3 months	2.50-2.48pm	2.53-2.51pm
12 months	8.00-7.90pm	8.12-8.02pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

		Oct.7	Previous
8.30	am	82.5	82.1
9.00	am	82.5	81.4
10.00	am	82.4	81.4
11.00	am	82.4	81.6
Noon		82.5	81.8
1.00	pm	82.4	81.8
2.00	pm	82.2	81.6
3.00	pm	82.1	81.7
4.00	pm	82.0	81.7

CURRENCY RATES

Oct 7	Bank § rate %	Special * Drawing Rights	European † Currency Unit
Sterling	-	0.851208	0.795521
U.S Dollar	3.00	1.46085	1.37307
Canadian $	5.34	1.82183	1.70741
Austrian Sch	8.25	14.6027	13.7499
Belgian Franc	8.00	42.7299	40.2721
Danish Krone	9.50	8.05294	7.58553
D-Mark	8.25	2.07601	1.95457
Dutch Guilder	8.00	2.33882	2.20048
French Franc	10½	7.05225	6.63467
Italian Lira	15.00	N/A	1810.87
Japanese Yen	3.25	174.937	164.394
Norway Krone	-	8.51676	8.00569
Spanish Peseta	-	148.441	139.603
Swedish Krona	50.0	7.88932	7.40840
Swiss Franc	6.00	1.81218	1.71085
Greek Drach	19	N/A	254.059
Irish Punt	-	N/A	0.745262

§ Bank rate refers to central bank discount rates. These are not quoted by the UK, Spain and Ireland. † European Commission Calculations. * All SDR rates are for Oct.6

CURRENCY MOVEMENTS

Oct 7	Bank of England Index	Morgan** Guaranty Changes %
Sterling	82.0	-29.1
U.S Dollar	60.8	-17.5
Canadian Dollar	94.3	-7.0
Austrian Schilling	115.1	+16.3
Belgian Franc	117.0	+12.3
Danish Krone	115.5	+8.4
D-Mark	126.9	+32.7
Swiss Franc	117.2	+25.9
Dutch Guilder	120.5	+21.5
French Franc	111.1	-6.1
Lira	85.2	-32.6
Yen	147.2	+85.5
Peseta	100.9	-23.1

Morgan Guaranty changes: average 1980-1982 = 100. Bank of England Index (Base Average 1985 = 100). **Rates are for Oct.6

OTHER CURRENCIES

Oct 7	£	$
Argentina	1.7045 - 1.7075	0.9915 - 0.9925
Australia	2.3890 - 2.3910	1.3875 - 1.3885
Brazil	11363.0 - 11370.0	6607.30 - 6607.50
Finland	7.7825 - 7.7875	4.5300 - 4.5500
Greece	316.800 - 323.200	184.300 - 188.050
Hong Kong	13.2915 - 13.3120	7.7290 - 7.7310
Iran	2479.00*	1435.00*
Korea(Sth)	1334.00 - 1355.50	781.70 - 787.90
Kuwait	0.50160 - 0.50260	0.29215 - 0.29245
Luxembourg	50.95 - 51.05	29.65 - 29.75
Malaysia	4.2865 - 4.3000	2.4970 - 2.4980
Mexico	5156.40 - 5168.00	3110.50 - 3111.50
N.Zealand	3.1675 - 3.1720	1.8390 - 1.8415
Saudi Ar	6.3555 - 6.5075	3.7495 - 3.7505
Singapore	2.7315 - 2.7400	1.5910 - 1.5920
S.Af (Cm)	4.8620 - 4.8760	2.8295 - 2.8315
S.Af (Fn)	7.5060 - 7.5550	4.3575 - 4.3860
Taiwan	43.30 - 43.50	25.15 - 25.25
U.A.E.	6.2230 - 6.3735	3.6715 - 3.6735

*Floating rate. Iran Official rate £108.30 $62.70

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu Central Rates	Currency Amounts Against Ecu Oct 7	% Change from Central Rate	% Spread vs Weakest Currency	Divergence Indicator
Belgian Franc	41.9547	40.2721	-4.01	4.50	48
Dutch Guilder	2.29193	2.20048	-3.99	4.48	48
D-Mark	2.03412	1.95457	-3.91	4.39	57
French Franc	6.82216	6.63467	-2.75	3.14	-15
Danish Krone	7.75901	7.58553	-2.24	2.60	-36
Portuguese Escudo	176.844	173.199	-2.06	2.42	6
Irish Punt	0.759300	0.745262	-1.85	2.20	-53
Spanish Peseta	139.176	139.603	0.31	0.00	-05

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
(17/9) Sterling and Italian Lira suspended from ERM. Adjustment calculated by Financial Times.

POUND SPOT - FORWARD AGAINST THE POUND

Oct 7	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.7135 - 1.7325	1.7165 - 1.7175	0.90-0.88cpm	6.22	2.51-2.48pm	5.81
Canada	2.1300 - 2.1550	2.1425 - 2.1435	0.38-0.29cpm	1.88	0.97-0.77pm	1.62
Netherlands	2.7625 - 2.7925	2.7825 - 2.7925	¼-par cpm	0.27	¼-¼pm	0.27
Belgium	50.55 - 51.05	50.95 - 51.05	2-3cdis	-0.59	3-2cpm	0.20
Denmark	9.4775 - 9.6200	9.5450 - 9.5550	3¼-7¾oredis	-6.75	7¾-13¼dis	-4.40
Ireland	0.9320 - 0.9450	0.9340 - 0.9350	0.85-0.45ppm	8.35	2.10-1.50pm	7.81
Germany	2.4525 - 2.4800	2.4700 - 2.4750	¼-¼pfpm	0.91	¼-¼dis	-0.30
Portugal	216.50 - 219.25	218.00 - 219.00	N/A	N/A	N/A	N/A
Spain	174.25 - 176.50	175.85 - 176.15	80-219cdis	-10.19	237-393dis	-7.16
Italy	2223.25 - 2325.00	2231.50 - 2232.50	14-18liredis	-8.60	41-48dis	-7.97
Norway	10.0150 - 10.0300	10.0825 - 10.0925	5¾-10¼oredis	-9.44	12¼-18¼dis	-6.12
France	8.3225 - 8.4075	8.3900 - 8.4000	2¾-4¼cdis	-4.91	7¼-9¾dis	-4.08
Sweden	9.2675 - 9.3950	9.3525 - 9.3625	5¾-11ore dis	-10.66	12¾-19¾dis	-6.92
Japan	205.50 - 207.25	205.50 - 206.50	1-¼ypm	5.46	2¼-2¼pm	5.10
Austria	17.21 - 17.88	17.37 - 17.40	¼-¼gropm	0.39	1¼-¼pm	0.23
Switzerland	2.1450 - 2.1775	2.1625 - 2.1725	¼-¼cpm	3.11	1¼-1¼pm	2.49
Ecu	1.2745 - 1.2620	1.2695 - 1.2705	0.29-0.42cdis	-3.35	0.90-1.09dis	-3.13

Commercial rates taken towards the end of London trading. Six-month forward dollar 4.55-4.50pm. 12 Month 8.04-7.94pm

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

Oct 7	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.7135 - 1.7325	1.7165 - 1.7175	0.90-0.88cpm	6.22	2.51-2.48pm	5.81
Ireland†	1.8265 - 1.8415	1.8350 - 1.8360	3.20-2.40cpm	18.31	7.10-6.30pm	14.60
Canada	1.2400 - 1.2500	1.2475 - 1.2485	0.40-0.50cdis	-4.33	1.30-1.45dis	-4.29
Netherlands	1.6000 - 1.6265	1.6230 - 1.6240	0.81-0.84cdis	-6.10	2.32-2.37dis	-5.78
Belgium	29.30 - 29.80	29.65 - 29.75	14.00-16.00cdis	-6.06	43.00-46.00dis	-5.99
Denmark	5.5075 - 5.5700	5.5600 - 5.5650	4.00-7.00oredis	-11.87	12.50-17.50dis	-10.79
Germany	1.4200 - 1.4425	1.4395 - 1.4405	0.71-0.73pfdis	-6.00	2.03-2.06dis	-5.68
Portugal	125.30 - 127.10	126.95 - 127.05	500-650cdis	-54.33	800-1050dis	-29.13
Spain	101.40 - 102.80	102.65 - 102.75	90-160cdis	-14.61	270-420dis	-13.44
Italy	1284.00 - 1348.00	1299.75 - 1300.25	14.00-19.00liredis	-15.23	44.00-52.00dis	-14.77
Norway	5.8050 - 5.8825	5.8725 - 5.8775	5.50-8.00oredis	-13.79	14.00-20.00dis	-11.57
France	4.8225 - 4.8925	4.8875 - 4.8925	4.20-4.70cdis	-10.92	12.00-12.80dis	-10.14
Sweden	5.3275 - 5.4575	5.4475 - 5.4525	4.00-8.00dis	-13.21	14.00-19.00dis	-12.11
Japan	119.50 - 120.50	119.75 - 120.25	0.09-0.11ydis	-1.00	0.19-0.21dis	-0.67
Austria	10.0150 - 10.1275	10.1175 - 10.1225	4.85-5.20grodis	-5.96	14.40-15.50dis	-5.91
Switzerland	1.2425 - 1.2650	1.2625 - 1.2635	0.34-0.37cdis	-3.37	1.06-1.10dis	-3.40
Ecu	1.3510 - 1.3670	1.3585 - 1.3595	1.12-1.02cpm	9.49	3.17-3.02pm	9.15

Commercial rates taken towards the end of London trading. † UK, Ireland and ECU are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency.

EURO-CURRENCY INTEREST RATES

Oct 7	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	9¼ - 9⅛	9¼ - 9⅛	9¼ - 9⅛	9 - 8⅞	8⅝ - 8½	8⅜ - 8¼
US Dollar	3¼ - 3⅛	3⅛ - 3	3⅛ - 3	3¼ - 3⅛	3¼ - 3⅛	3½ - 3⅜
Can. Dollar	7⅛ - 6⅞	7½ - 6⅞	8⅛ - 8	8⅛ - 7⅞	8⅛ - 7⅞	7⅞ - 7⅝
Dutch Guilder	9⅛ - 8⅞	9⅛ - 8⅞	9 - 8⅞	8⅞ - 8⅝	8⅝ - 8½	8⅜ - 8¼
Swiss Franc	6¼ - 6	6¼ - 6	6¼ - 6⅛	6⅛ - 6⅛	6⅛ - 6⅛	6⅛ - 6
D-Mark	9⅛ - 9	9⅛ - 9	8⅞ - 8⅞	8⅞ - 8⅞	8⅝ - 8⅝	8⅛ - 8
French Franc	12½ - 12	12¾ - 12¼	12⅝ - 12¼	12¼ - 12	10⅝ - 10¼	10⅛ - 9⅞
Italian Lira	21 - 16	17½ - 16	18¼ - 17½	17 - 16	16⅛ - 15⅛	16 - 15
Belgian Franc	9⅛ - 9⅛	9⅛ - 9⅛	9⅛ - 9⅛	9⅛ - 9⅛	8⅞ - 8⅞	8⅞ - 8⅞
Yen	4⅛ - 4⅛	4⅛ - 4⅛	4⅛ - 4⅛	3⅞ - 3⅞	3⅞ - 3⅝	3⅞ - 3⅞
Danish Krone	11 - 10	13 - 11	13 - 12	13 - 11	13 - 11	13 - 11
Asian $Sing	1⅛ - 1⅛	1 - ⅞	1⅛ - 1⅛	1⅛ - 1⅛	1⅛ - 1⅛	2⅛ - 2⅛
Spanish Peseta	17 - 12	15 - 13	14⅛ - 14⅛	14 - 12⅛	13⅛ - 12⅛	14 - 13

Long term Eurodollars, two years 4-3⅞ per cent; three years 4⅝-4½ per cent; four years 5⅛-5⅛ per cent; five years 5⅝-5½ per cent nominal. Short term rates are call for US Dollars and Japanese Yen; others, two days' notice.

EXCHANGE CROSS RATES

Oct.7	£	$	DM	Yen	F Fr.	S Fr.	N Fl.	Lira	C$	B Fr.	Pta	Ecu
£	1	1.717	2.472	206.0	8.395	2.167	2.787	2232	2.143	51.00	176.0	1.270
$	0.582	1	1.440	120.0	4.889	1.262	1.623	1300	1.248	29.70	102.5	0.740
DM	0.405	0.695	1	83.33	3.396	0.877	1.127	902.9	0.867	20.63	71.20	0.514
YEN	4.854	8.335	12.00	1000.	40.75	10.52	13.53	10835	10.40	247.6	854.4	6.165
F Fr.	1.191	2.045	2.945	245.4	10.	2.581	3.320	2659	2.553	60.75	209.6	1.513
S Fr.	0.461	0.792	1.141	95.06	3.874	1	1.286	1030	0.989	23.53	81.22	0.586
N Fl.	0.359	0.616	0.887	73.91	3.012	0.778	1	800.9	0.769	18.30	63.16	0.456
Lira	0.448	0.769	1.108	92.29	3.761	0.971	1.249	1000.	0.960	22.85	78.85	0.569
C$	0.467	0.801	1.154	96.13	3.917	1.011	1.301	1042	1	23.80	82.13	0.593
B Fr.	1.961	3.367	4.847	403.9	16.46	4.249	5.465	4376	4.202	100.	345.1	2.498
Pta	0.568	0.976	1.405	117.0	4.770	1.231	1.584	1268	1.218	28.98	100.	0.722
Ecu	0.787	1.352	1.946	162.2	6.610	1.706	2.194	1757	1.687	40.16	138.6	1.

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100: Peseta per 100.

FINANCIAL FUTURES AND OPTIONS

LIFFE LONG GILT FUTURES OPTIONS £50,000 64ths of 100% [illegible]

LIFFE US TREASURY BOND FUTURES OPTIONS $100,000 64ths of 100% [illegible]

LIFFE BUND FUTURES OPTIONS DM250,000 points of 100% [illegible]

LIFFE EUROMARK OPTIONS DM1m points of 100% [illegible]

LIFFE ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS [illegible]

LIFFE SHORT STERLING OPTIONS £500,000 points of 100% [illegible]

LONDON (LIFFE) [illegible]

CHICAGO [illegible]

PARIS [illegible]

OPTION ON LONG-TERM FRENCH BOND (MATIF)

Strike	Calls December	Calls March	Calls June	Puts December	Puts March	Puts June
106	2.85	3.62	-	0.34	-	-
107	2.10	2.91	-	0.56	0.92	-
108	1.41	2.33	-	0.86	-	-
109	0.91	1.76	-	1.30	-	-
110	0.54	1.27	-	-	-	-
Open Int	337,744	82,712	202	220,840	61,783	1,460

Estimated volume 50,963 † Total Open Interest 794,841
† All Yield & Open Interest figures are for the previous day.

* Contracts traded on APT. Closing prices shown.

POUND - DOLLAR

FT FOREIGN EXCHANGE RATES

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.7170	1.7081	1.6921	1.6718	1.6371

BASE LENDING RATES

	%		%		%
Adam & Company	9	Credit Lyonnais	9	McDonnell Douglas Bnk.	9
Allied Trust Bank	9	Cyprus Popular Bk	9	Midland Bank	9
AIB Bank	9	Duncan Lawrie	9	Mount Banking	9
● Henry Ansbacher	9	Equatorial Bank plc	9	NatWestminster	9
B & C Merchant Bank	13	Exeter Bank Limited	9.5	Northern Bank Ltd	9
Bank of Baroda	9	Financial & Gen. Bank	9	Nykredit Mortgage Bank	9.5
Banco Bilbao Vizcaya	9	● Robert Fleming & Co.	9	Provincial Bank PLC	14
Bank of Cyprus	9	Robert Fraser & Ptnrs.	9.5	● Rea Brothers	9
Bank of Ireland	9	Girobank	9	Roxburghe Bank Ltd.	10
Bank of India	9	● Guinness Mahon	9	Royal Bk of Scotland	9
Bank of Scotland	9	Habib Bank AG Zurich	9	● Smith & Williamson Secs.	9
Banque Belge Ltd	9	● Hambros Bank	9	Standard Chartered	9
Barclays Bank	9	Hampshire Trust Plc	13.5	TSB	9
Brit Bk of Mid East	9	Heritable & Gen Inv Bnk.	9	Unibank plc	9
● Brown Shipley	9	● Hill Samuel	9	● United Bk of Kuwait	9
CL Bank Nederland	9	C. Hoare & Co.	9	Unity Trust Bank Plc	9
Citibank NA	9	Hongkong & Shanghai	9	Western Trust	9
City Merchants Bank	9	Julian Hodge Bank	9	Whiteaway Laidlaw	9
Clydesdale Bank	9	● Leopold Joseph & Sons	9	Yorkshire Bank	9
Co-operative Bank	9	Lloyds Bank	9		
Coutts & Co	9	Meghraj Bank Ltd	9		

● Members of British Merchant Banking & Securities Houses Association.

MONEY MARKETS

Rate cut hopes build

A STRONGER performance by sterling and hopes of a cut in German interest rates caused rates to ease on the UK money market yesterday, *writes Neil Buckley*.

Actions by the Bundesbank put further downward pressure on German money market rates. German call money closed down at 8.90 per cent from a recent 9 per cent.

With the Bundesbank injecting a net DM2.8bn into the German banking system - more than expected - via a 14-day securities repurchase pact, one dealer said it was "actively pushing rates down".

"It could be heralding a German rate cut," he added.

With sterling building on Tuesday's rally against the D-mark, there was renewed optimism in the UK market that Mr Norman Lamont, the chancellor, might be able to reduce UK base rates.

"Hopes of a rate cut will not disappear from the market now unless sterling really does come down very sharply," one London dealer said.

Traders were also encouraged by reports that Mr Lamont was preparing to make a statement on the government's new economic policy at the Conservative party's conference in Brighton today.

The key three month interbank rate - the best indicator of the future direction of interest rates - fell to 8⅞ per cent from a previous close of 9¼ per cent, showing dealers' confidence that a base rate cut is in the offing before the end of the year. One-month money also eased to 9⅛ per cent from 9⅜ per cent.

The December short sterling contract closed up three basis points at 91.85, although it had earlier touched a high of 91.90. Dealers said, however, they would expect the contract to be considerably above 92.00 if a rate cut was thought to be imminent.

There were few problems with day-to-day funding. The Bank of England initially forecast a shortage of £800m, but this was twice revised, to reach £1bn. An early round of help injected £630m into the system, in the form of bills for resale to the market on November 2 at 8⅞ per cent.

Later purchases totalling £352m of band 1 bank bills at 8¾ per cent took the daily total to £982m - only £18m below the target. Overnight rates fell as low as 8 per cent but firmed to 9 per cent at the close.

UK clearing bank base lending rate 9 per cent from September 22, 1992

FT LONDON INTERBANK FIXING

(11.00 a.m. Oct.7) 3 months US dollars		6 months US Dollars	
bid 3⅛	offer 3¼	bid 3⅛	offer 3¼

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted to the market by five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque National de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK — 4 pm

Prime rate	6
Broker loan rate	5
Fed.funds	3
Fed.funds at intervention	-

Treasury Bills and Bonds

One month	2.96	Three year	4.34
Two month	2.85	Five year	5.41
Three month	2.88	Seven year	6.01
Six month	2.99	10-year	6.44
One year	3.12	30-year	7.49
Two year	3.87		

Oct.7	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	8.85-9.00	8.95-9.05	8.95-9.05	8.95-9.05	8.80-8.95	9.50
Paris	12⅛-12⅞	13⅛-14⅛	-	12⅛-13⅛	-	9.60
Zurich	5⅝-5⅞	6⅛-6⅛	-	6⅛-6⅛	-	-
Amsterdam	8.88-8.93	8.85-8.95	-	8.70-8.80	-	-
Tokyo	4⅛-4⅛	4⅛-4⅛	-	3⅞-3⅞	-	-
Milan	16⅛-17⅛	17⅛-17⅛	-	17⅛-17⅛	-	-
Brussels	8⅞-9	8⅞-9⅛	-	8⅞-9	-	-
Dublin	15-25	13-14	12½-13½	12⅛-13⅛	11⅛-12⅛	-

LONDON MONEY RATES

Oct. 7	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank Offer	9⅛	9⅜	9¼	9⅛	8⅞	8½
Interbank Bid	7	9⅛	9⅛	8⅞	8⅝	8⅜
Sterling CDs	-	-	9⅛	8⅞	8⅝	8⅜
Local Authority Deps.	9⅛	9⅛	9⅛	9⅛	8¾	8½
Local Authority Bonds	-	-	-	-	-	-
Discount Mkt Deps	9	9⅛	-	-	-	-
Company Deposits	-	-	-	-	-	-
Finance House Deposits	-	-	9⅛	9⅛	8½	8½
Treasury Bills (Buy)	-	-	8⅞	8⅞	8⅜	-
Bank Bills (Buy)	-	-	8⅞	8⅞	8⅝	-
Fine Trade Bills (Buy)	-	-	-	-	-	-
Dollar CDs	-	-	2.96	3.01	2.99	3.12
SDR Linked Dep Offer	-	-	6	6	6	6
SDR Linked Dep Bid	-	-	5⅞	5⅞	5⅞	5⅞
ECU Linked Dep Offer	-	-	12⅞	12⅛	11½	10¾
ECU Linked Dep Bid	-	-	12⅝	12⅛	11¼	10½

Treasury Bills (sell); one-month 8½ per cent; three months 8⅛ per cent; six months 8⅛ per cent. Bank Bills (sell): one-month 8⅞ per cent; three months 8⅞ per cent; Treasury Bills; Average tender rate of discount 8.1102. ECGD Fixed Rate Sterling Export Finance. Make up day September 30, 1992. Agreed rates for period Oct. 26, 1992 to November 24, 1992, Scheme I: 11.18 p.c., Schemes II & III: 11.18 p.c. Reference rate for period August 29, 1992 to September 30, 1992, Scheme IV&V: 10.112 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 10½ from October 1, 1992. Bank Deposit Rates for sums at seven days notice 4 per cent. Certificates of Tax Deposit (Series 6); Deposit £100,000 and over held under one month 6½ per cent; one-three months 9 per cent; three-six months 9 per cent, six-nine months 8½ per cent, nine-twelve months 8½ per cent; Under £100,000 7 per cent from May 6, 1992. Deposits withdrawn for cash 5 per cent

MONEY MARKET FUNDS

Money Market Trust Funds

[illegible]

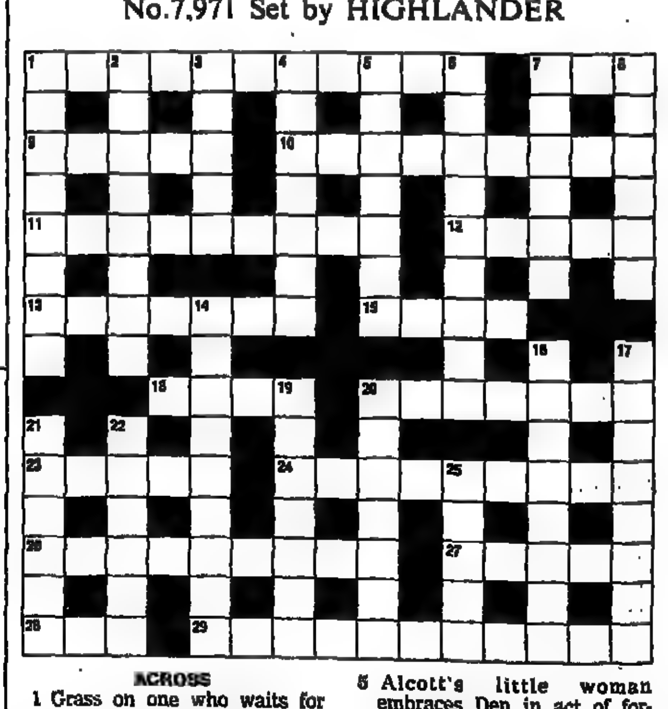
Money Market Bank Accounts

[illegible]

JOTTER PAD

CROSSWORD

No.7,971 Set by HIGHLANDER



ACROSS

1 Grass on one who waits for *staff representative* (4,7)
7 Move quickly up and down short cut (3)
9 Even bits of soap are turned into drama (5)
10 Cigar is brown, rounded, taken between food in Spain (9)
11 Without meaning to, get untipped (9)
12 Brass or steel never varies (5)
13 Book on units is a start (7)
15 Still the number one Himalayan mystery (4)
18 Young animal's leg section (4)
20 Hard fruit, not soft bean (7)
23 Informal, elegant style caught by young girl (5)
24 Finance is in decline (9)
26 Came across to dish cooked by nonconformist (9)
27 Turn aside, taking street on right (5)
28 It sounds like a horse being born (3)
29 Hotel worker needs a drink by the end of the day (5,6)

DOWN

1 Stay and put out call for a strike (8)
2 Done it wrong outside – be willing to follow orders (8)
3 Acute pain (5)
4 How to communicate fast without printing equipment? (7)
5 Alcott's little woman embraces Den in act of forgiveness (7)
6 Explosive has gone up, as list of duties recorded (9)
7 Spanish dancing jacket (6)
8 Dashing young men with swords (6)
14 German security guards protect pale blue fabric (9)
16 Mishap I had, in a manner of speaking (8)
17 Witness trees being chopped up after a race (8)
19 Walton's speciality – cut of beef surrounded by fruit (7)
20 The custom at home (7)
21 Good judgment by current university people (6)
22 Place well protected man on board (6)
25 I owned up to love for the state (5)

Solution to Puzzle No.7,970

WORLD STOCK MARKETS

AUSTRIA

October 7	Sch	+ or −
Austrian Airlines	1,920	....
Creditanstalt Pf	407	+9
EA General	2,730	....
EVN	768	+4
Jungbunzlauer	16,100	+90
OeMV	668	+2
Perlmooser Zement	1,200	....
Radex Heraklith	412	....
Reuninghaus Brue	995	....
Steyr Daimler	176	+3
Veitscher Magnesit	288	−2
Verbund (Br) A	421	+3
Wienerberger	7,050	+30
Z-Landerbank	1,029	−1

BELGIUM/LUXEMBOURG

October 7	Frs.	+ or −
AG Group	1,825	+60
Ackermans	2,470	−30
Almanij	5,600	−20
Arbed	2,330	+75
BBL	3,450	+5
Bank Intl a Lux	11,550	+50
Banq Gen Lux Pts	11,950	....
Banque Nat Belg	29,075	+75
Bekaert	11,300	+25
CBR Ciment	7,530	+10
CMB	1,605	+55
Cobepa	4,280	+80
Cockerill Priv	130	+1
Colruyt	4,760	+130
Delhaize Frs Lion	1,525	−15
Electrabel	4,915	+45
Electrabel AFV1	4,785	+25
Electrafina ACT	2,095	−5
GBL	2,410	+15
GBL AFV 1	2,385	....
GIB Group	1,230	....
Gechem	298	....
Generale Banque	6,730	+60
Gevaert	6,220	+120
Glaverbel	3,690	+40
Immobel	2,300	....
Kredietbank	5,030	+50
Kredietbank AFV	4,900	+30
Mecaniver	5,500	....
Mosane	1,376	+22
Pan Holding Lux	11,850	....
Petrofina	8,300	−60
Powerfin	2,150	+70
Royale Belge	3,695	+95
Royale Belge AFV 1	3,290	−20
Soc Gen Belge	1,810	+50
Soc Gen Belge AFV	1,785	+85
Sofina	10,025	+25
Solvac	1,318	+8
Solvay	11,650	+100
Tractebel	7,440	+170
UCB	21,650	+150
Union Miniere	1,980	+25

DENMARK

October 7	Kr	+ or −
Baltica Holding Reg	225	+27.50
Bikuben	214	....
Carlsberg A	262	−5
D/S 1912 A	70,500	−1,000
Danisco	595xd	−10
Den Danske Bank	219	−8
East Asiatic	65	−1
FLS Ind B	410	−4
Great Nordic	257	−2.35
ISS Intl Serv B	856	−5

FRANCE (continued)

October 7	Frs.	+ or −
Carrefour	2,130	+82
Casino	143.50	+4.50
Chargeurs	1,205	+16
Club Mediterranee	348.60	+8.60
Cogifi	324	−11
Comptoir Ind	576	
CCF	186	+5.40
Cr Fonc France	812	+14
Cred Lyon (CI)	441	−4
Credit National	1,012	+34
Damart	2,950	+20
Docks de France	349	+1
Dollfus Mieg Cie	286	+11
EBF	790	....
Eaux Cie Genl	1,938	+29
Ecco	360	+8
Elf Aquitaine	325	+9.20
Elf Aquitaine Certs	227	....
Elf Sanofi	979	+4
Eridania B-Say	614	+24
Eridania B-Say CI	460	−6
Essilor Int	385	+10
Etex	1,800	+25
Eurafrance	982	+6
Euro RSCG	499.50	+14.50
Euro Disney	66.85	+2.45
Fin Pollet	310	−32.50
Finextel	103	+2
Fonc Lyonnaise	521	−9
From Get Aen	1,270	+20
GTM-Entrepose	328	−3
Gal Lafayette	1,815	−37
Gaumont (Soc N)	412	−3
Geophysique	663	−1
Hachette	141.90	+0.10
Havas	386.60	+10.10
Imetal	299	+7
	720	+30
Immobanque	540	....
Immob Phenix	107	+0.20
Interbail	375	−5
	530	−18
LVMH	3,514	+66
Lafarge Coppee	263.90	+0.10
L'Oreal	908	+29
Legrand	3,920	+290
Legris	222xd	−22
Lyon Eaux Dumez	479.30	+4.50
Matra	178.80	+7
Michelin B	181.80	+5.70
Moulinex	91.90xd	+0.10
Navigation Mixte	695	....
Nord Est	109	....
Orsan	120	+5
Paribas	278.30	−12.80
Paris Reescompte	193.50	+3.50
Pernod Ricard	392	+19
Peugeot	483.10	−3.50
Pinault	330	+5
Printemps (Au)	780	+130
Promodes	535	+19
Radiotechn	303	+7.50
Redoute	5,640	+10
Rhone Poulenc Ce	517	+1
Roussel-Uclaf	390	−1
SILIC	515	....
Sagem	2,000	−19
Saint Gobain	491.40	+18.40
Saint Louis	1,053	+36
Schneider	526	+5
Seb SA	362	+2
Sefimeg	376	+1
Simco	393.90	−0.10
Skis Rossignol	385	....
Soc Generale de Fr	514	+80.80
Sommer-Allibert	1,065	−14
Sole Batignolles	[illegible]	−2

INDICES

NEW YORK

DOW JONES	Oct 7	Oct 6	Oct 5	Oct 2	1992 HIGH	1992 LOW	Since compilation HIGH	Since compilation LOW
Industrials	3152.25	3178.19	3179.00	3200.61	3413.21 (1/6)	3152.25 (7/10)	3413.22 (1/6/92)	41.22 (2/7/32)
Home Bonds	102.47	102.52	102.99	102.72	103.20 (18/9)	98.41 (20/3)	103.20 (18/9/92)	54.99 (1/10/81)
Transport	1236.49	1253.80	1240.31	1246.75	1467.68 (20/2)	1204.40 (26/8)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	215.57	216.14	215.82	217.70	225.59 (3/1)	200.74 (8/4)	236.23 (2/1/90)	10.50 (8/4/32)

DJ Ind. Day's High 3200.88 (3205.20) Low 3136.85 (3147.93) (Theoretical)
Day's High 3187.91 (3191.70) Low 3145.77 (3157.66) (Actual)

STANDARD AND POOR'S

	Oct 7	Oct 6	Oct 5	Oct 2	1992 HIGH	1992 LOW	Since compilation HIGH	Since compilation LOW
Composite †	404.25	407.18	407.57	410.47	425.27 (14/9)	394.50 (8/4)	425.27 (14/9/92)	4.40 (1/6/32)
Industrials	473.47	477.00	477.78	480.84	503.30 (14/9)	470.91 (8/4)	503.30 (14/9/92)	3.62 (21/6/32)
Financial	35.39	35.52	35.43	35.80	36.66 (3/8)	32.40 (8/4)	36.66 (3/8/92)	8.64 (1/10/74)
NYSE Composite	222.84	224.09	224.14	225.81	233.73 (14/9)	217.92 (8/4)	233.73 (14/9/92)	4.46 (25/4/42)
Amex Mkt. Value	366.80	367.71	366.62	371.24	418.99 (12/2)	366.62 (5/10)	418.99 (12/2/92)	29.31 (9/12/72)
NASDAQ Composite	569.30	570.55	565.21	571.63	644.92 (12/2)	547.84 (26/6)	644.92 (12/2/92)	54.87 (31/10/72)

	Oct 2	Sep 25	Sep 18	year ago (approx.)
Dow Industrial Div. Yield	3.24	3.19	3.10	3.12

	Sep 30	Sep 23	Sep 16	year ago (approx.)
S & P Industrial div. yield	2.70	2.68	2.63	2.75
S & P Ind. P/E ratio	27.40	27.57	27.77	21.15

TOKYO - Most Active Stocks
Wednesday October 7 1992

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Kubota Corp	8.8m	597	+30	Shinagawa Fuel	5.2m	865	+55
Aisin Seiki	6.9m	1,050	+40	Mitsubishi Kakoh	4.4m	1,090	
Green Cross	6.7m	1,370	−60	Toyo Kanetsu	3.5m	781	−1
Mitsui Min & Smt	6.3m	482	+4	S'tomo Cement	2.9m	572	−1
Nikkan Chem	5.3m	1,040	+30	Nippon Mining	2.5m	500	

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

4 pm close October 7

1992 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
15 7/8	11 1/4	AAR Corp	0.48	4.3	18	269	11 1/8	d11	11 1/8	-1/4
26	18	A L Labs A	0.18	0.8	60	87	22 7/8	22 1/8	22 1/2	-1/4
65 1/4	52 3/8	AMP Inc	1.52	2.5	23	840	60	59 3/8	59 5/8	-1/2
80 1/4	54 3/8	AMR			20	2644	58 3/4	56 1/2	56 1/2	-1 5/8
2 1/8	1 1/8	ARX			16	2	1 1/8	d1 1/8	1 1/8	
63 1/2	33 7/8	ASA	2.00	5.8	33	162	35	34 3/8	34 3/4	
34 1/4	26 1/8	Abbott Lab	0.60	2.2	19	1095	28 1/4	27 1/2	27 3/4	
13 7/8	11 1/8	Abitibi Pr	0.42	3.8	6	7	11 1/8	d11 1/8	11 1/8	-1/4
11 5/8	10 1/4	ACM Gvt In	0.96	8.5		218	11 3/8	11 1/4	11 1/4	+1/8
10 1/8	9 1/8	ACM GvOpp	0.79	8.1		40	9 7/8	9 3/4	9 3/4	-1/8
9 3/4	8 1/2	ACM Gvt Sp	0.79	8.4		216	9 1/2	9 3/8	9 3/8	
11 3/8	10 1/8	ACM Gvt Sec	0.96	8.5		195	11 1/4	11 1/8	11 1/4	+1/8
10 5/8	8 5/8	ACM Man	1.08	10.3		224	10 1/2	10 3/8	10 1/2	+1/8
12 7/8	9 7/8	ACM Managd	0.99	9.6		75	10 1/4	10 1/8	10 1/4	
11 1/4	4 3/4	Acme Cleve	0.40	6.2	12	171	6 5/8	6 1/2	6 1/2	
6 1/4	3 1/4	Acme Elect			26	18	3 7/8	d3 1/4	3 3/8	-1/8
33 1/4	14 1/8	Acuson			10	316	15 1/4	14 3/4	15	+1/8
20	18 1/8	Adams Expr	0.48	2.5	0	69	19 1/4	19 1/4	19 1/4	
49 1/8	29 1/2	Ad Micro	3.00	7.9		405	37 7/8	37 5/8	37 3/4	+1/8
21 1/2	7 1/2	Ad Micro P	3.00	24.2		41190	12 7/8	12 1/8	12 3/8	-1/2
9 1/8	4 7/8	Advest Grp	0.16	2.9	68	13	5 5/8	5 1/2	5 1/2	-1/8
41 7/8	33	Aegon ADR	1.65	4.0	7	10	41 1/2	41	41 1/2	+5/8
47	36	Aetna Lf	2.76	6.6	10	1498	42 1/2	41 3/4	41 7/8	-1/4
12 3/4	8 3/4	Ahli A	0.24	2.3	12	1147	10 5/8	10 1/8	10 3/8	-1/4
34	24	Aflac	0.44	1.5	14	639	30 5/8	30 1/8	30 1/4	-1/4
19 3/8	13 1/4	Ahmanson	0.88	6.6	6	1267	13 3/8	d13 1/4	13 3/8	-1/8
22 1/2	4 1/2	Aileen Inc			7	113	4 3/4	4 5/8	4 5/8	-1/8
49 1/2	36 1/2	Air Pr Chm	0.88	2.0	18	895	43 3/4	43 1/4	43 3/4	+1/8
29 3/4	12 1/2	Airbne Frt	0.30	1.8	31	642	16 5/8	16	16 3/4	
34 1/4	22 7/8	Airgas Inc			26	123	31 7/8	31 1/8	31 7/8	+5/8
12 3/8	8 1/8	Airlease x	1.68	16.0	8	119	10 7/8	10 3/8	10 1/2	-1/8
104	99 1/2	AlaPw8.16	8.16	8.1		15	101 1/2	101	101	
105	100 1/4	Alab 8.28C	8.28	8.0		2	103 1/2	103 1/4	103 1/4	
11 1/4	10 1/2	AlaPwDpPf	0.87	8.0		11	11	10 7/8	10 7/8	
23 7/8	16 1/4	Alaska Air	0.20	1.2	8	776	16 1/8	d15 7/8	16 1/8	-1/4
21 1/4	13 1/4	Albany Inr	0.35	2.9	30	3	13 3/8	d13 1/4	13 1/4	
32	21 1/4	AlCulvr B	0.24	1.0	17	66	22 7/8	22 1/2	22 7/8	
25 1/4	19 5/8	AlCulvr A	0.24	1.1	19	91	21 7/8	21 3/4	21 7/8	+1/8
47 1/2	36 3/4	Albertsons	0.64	1.5	24	2146	44 7/8	43 3/4	43 1/2	-1/2
22 1/4	15 1/4	Alcan Alum	0.30	1.9	38	3169	16 1/4	15 5/8	15 3/4	-3/8
42 5/8	33 1/8	Alco Stand	0.92	2.6	15	423	36	35 1/2	35 5/8	-1/4
23 1/4	14 5/8	AlexBrown	0.40	2.6	4	87	15 1/2	15 1/4	15 3/8	
27 1/8	18	Alexr Alex	1.00	3.9	107	329	26 1/8	25 7/8	25 7/8	-1/8
36 3/4	27 1/2	Allegh Lud	0.60	2.6	22	209	31 1/4	31	31	-1/8
[illegible]										

1992 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
[illegible]										
38 1/4	28 1/4	Barnes Grp	1.40	4.5	15	6	31 1/4	31	31	-1/4
40 1/2	31	Barnett Bk	1.32	3.5	16	1213	37 7/8	37 1/8	37 1/2	+1/8
7 1/2	4 7/8	Barold x	0.20	3.0	32	2286	6 5/8	6 1/2	6 5/8	+1/4
8 5/8	5 7/8	Battle Mt	0.10	1.6	36	231	6 5/8	6 1/4	6 1/4	
60 1/4	44 1/2	Bausch Lob	0.80	1.6	32	759	51 1/2	50 1/2	50 3/4	+1/4
40 1/2	30 1/2	Baxter	0.86	2.8	14	7801	31 1/4	30 3/4	30 7/8	
25 5/8	20 3/4	Bay St Gas	1.38	5.5	16	65	u25 3/4	25 1/8	25 1/4	-1/8
25 1/4	21 5/8	Bd Tr 1938	1.82	7.5		25	24 5/8	24	24 1/4	-1/8
19 3/4	14 1/4	Bear Strns	0.60	4.0	6	1218	15 1/8	14 3/4	14 7/8	
46 1/4	43 7/8	BearStPfA	3.25	7.2		z100	45 1/4	45 1/8	45 1/4	
23 1/4	16 3/4	Bearings	0.64	3.7	71	74	17 3/8	16 7/8	17 1/8	+1/8
23 5/8	17 5/8	Beckman In	0.32	1.6	14	149	21 1/8	20 5/8	20 7/8	-3/8
78 7/8	64 3/4	Becton Dks	1.20	1.6	15	699	74 7/8	74	74	-5/8
37 1/2	25 7/8	Belding Hy	0.64	1.8	25	287	35 1/4	33 1/2	35 1/4	+2 1/4

- C - [illegible]

- D - [illegible]

- E - [illegible]

- F - [illegible]

- G - [illegible]

- H - [illegible]

- I - [illegible]

- J - [illegible]

- K - [illegible]

- L - [illegible]

- M - [illegible]

- N - [illegible]

- O - [illegible]

- P - Q - [illegible]

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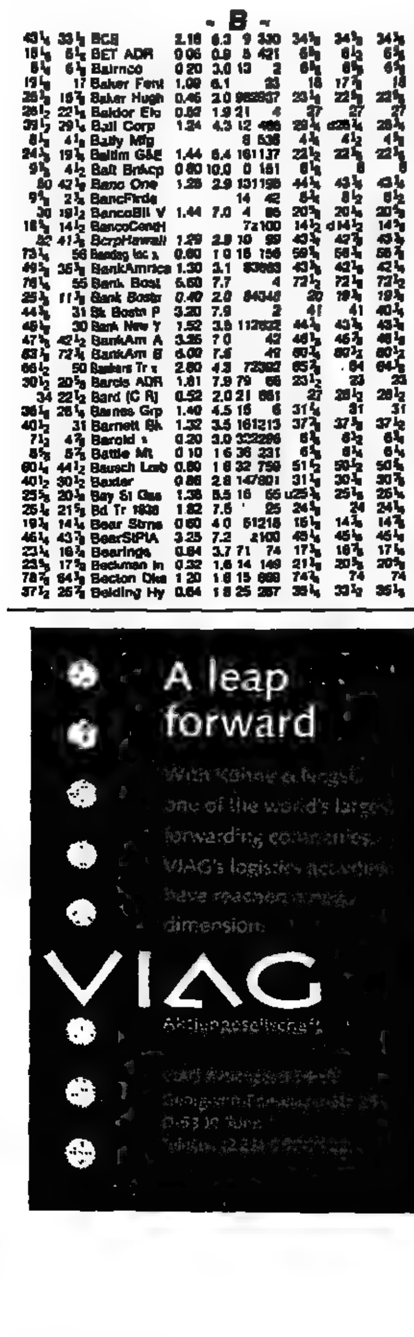


Continued on next page

NYSE COMPOSITE PRICES

Continued from previous page

1992 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close	Ch'ge
34¼	24⅞	Xira 1.94	1.94	6.0		20	33¼	32¼	32¼	+¼
47½	28½	Xtra Corp	0.60	1.6	10	285	45	44½	45	+¼
30⅝	26¼	Yankee Egy	1.68	5.5	14	44	30⅛	30¼	30¼	+⅛
7½	½	Zapata			25	67	1⅛	1	1	
11⅛	5½	Zenithlec			3	274	5⅞	5¾	5⅞	
19½	14½	Zenith Nat	1.00	5.9	8	161	17	16⅞	16⅞	−⅛
7⅛	6	Zenix Inc x	0.82	11.7		110	7⅛	7	7	−⅛
13¾	10	Zero Corp	0.40	3.5	18	91	11½	11⅜	11½	
35	27¼	Zurn Ind x	0.88	2.9	35	285	30¾	30½	30¼	−⅛
14⅛	12	Zweig Fund	1.12	9.0		284	12⅝	12½	12½	
11	9½	Zweig Tot	0.96	9.6		316	10⅛	10	10	−⅛

Price data supplied by Telekurs.

Yearly highs and lows reflect the period from Jan 1, excluding the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

4 pm close October 7

NASDAQ NATIONAL MARKET

4 pm close October 7

- X - Y - Z -

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
Xilinx		18	2983	17¼	d16¾	17	−⅛
Xoma Corp		5	1799	10	d9	9¾	+½
Yellow Fr	0.94	20	919	24⅛	23½	23⅝	−⅛
York Rsch		6	1065	6⅜	6⅛	6⅜	+⅛
ZionsUtah	1.44	11	4	59½	58	58½	

AMERICA

Dow falls after wave of program selling

Wall Street

AFTER a quiet opening, US share prices tumbled in late trading yesterday on a wave of program selling and a big drop in bond prices, *writes Patrick Harverson in New York.*

At the close the Dow Jones Industrial Average was down 25.94 at 3,152.25, near its lows for the day. The more broadly based Standard & Poor's 500 also ended lower, down 2.91 at 404.27, while the Amex composite eased 0.83 to 366.88 and the Nasdaq composite gave up all of its early gains to finish 1.36 lower at 569.19. Turnover on the NYSE was 184m shares. Although investors were disappointed that the Fed did not ease monetary policy after its monthly open market committee meeting on Tuesday, prices were supported yesterday by continued, if sporadic, bargain-hunting as investors went in in search of bargains after the recent sell-off.

The overall mood of the market, however, remained downbeat. The Dow has lost almost 120 points in the last five trading days, and investors are reluctant to invest heavily in stocks for fear of being caught out by an unexpectedly poor third quarter reporting season, which starts next week.

It was no surprise, therefore, when a combination of a big fall in bond prices and program selling pushed prices sharply lower in the last hour of trading.

Among individual stocks, Ford fell $1¼ to $36¼ in busy trading after analysts at the broking houses, Bear Stearns and Salomon Brothers, cut their 1992 and 1993 earnings estimates for the car manufacturer, citing rising costs and a poor outlook for European sales.

Perkin-Elmer dropped $1½ to $29½ even though it said the acquisition of Applied Biosystems in a $330m stock-swap would not significantly dilute operating earnings in the first year. News of the takeover lifted Applied Biosystems $2⅜ to $19⅜.

The drugs sector was boosted in early trading by reports that fund managers were picking up drug stocks after their recent declines, but prices fell back with the wider market in the final hour. Among those to benefit most were Johnson & Johnson, up $⅜ at $45½, Pfizer, up $⅜ at $72½, Bristol-Myers Squibb, $⅜ higher at $63⅜, and Eli Lilly, up $¼ at $60½.

Federated Department Stores climbed $¾ to $15 after securities house Lehman Brothers raised its earnings estimate for the retailer in anticipation of better than expected September comparable-stores sales.

Medtronic, in strong demand lately and approaching its 52-week high, ran into profit-taking and fell $2⅜ to $94⅜.

On the Nasdaq market, Premier Bancorp firmed $⅜ to $13⅜ after the regional banking group announced third quarter net income of 49 cents a share, up sharply from the 21 cents a share earned a year ago.

Pyramid Technology fell $1 to $6⅜ on news of cost-cutting measures which will leave the company with a fourth-quarter charge of between $22m and $24m and an overall net loss for the final period of the year.

Canada

TORONTO SHARES fell out of a narrow trading range late in the session to end lower.

The composite index slipped 14.13 points or 0.44% to 3,215.36, with 278 declining issues against 243 advances. Volume was 33.38m shares against 28.554m and trading value was C$376.7m.

The mining sector showed the largest swing among the sub-groups, down 1.71% on index, while industrial products fell 1.24%.

EUROPE

Lower interest rates lift financial stocks

EASIER interest rates lifted financial stocks yesterday, though industrial recession in Europe and a firmer dollar continued to mark cyclical and dollar-sensitive stocks yesterday, *writes Our Markets Staff.*

FT-SE Eurotrack 100 - Oct 7

Hourly changes							
Open	11.30am	12 pm	1 pm	2 pm	3 pm	4 pm	close
961.64	963.43	967.17	969.20	969.79	968.74	971.78	971.05
Day's High 972.51				Day's Low 961.64			

Oct 6	Oct 5	Oct 2	Oct 1	Sep 30
954.29	937.42	993.56	1006.01	1003.44

Base value 1000 (26/10/90).

PARIS was cheered by some good interim results and bargain-hunting in over-sold blue chips. The CAC-40 index ended 41.64 or 2.58 per cent higher at 1,654.15 on turnover of FFr2.82bn, of which FFr609m was generated in Printemps.

Shares in Au Printemps, the department store, were requoted at FFr780, up FFr130 or 20 per cent, the price offered by Pinault to buy out minority shareholders. The shares were suspended on September 22.

Société Générale rose FFr30.80 or 6.4 per cent to FFr514 after pleasing the market with its interim results, released shortly before the close.

But Paribas slumped FFr12.60 or 4.4 per cent to FFr278.30 on reports of serious losses at Ciments Français, in which the bank has a 34 per cent stake. The stock fell on speculation that Paribas would have to pay compensation to Italcementi of Italy, which is in the process of buying a controlling stake in the French cement group. Shares in Ciments Français were suspended.

UAP jumped FFr29 or 8.4 per cent to FFr375, amid rumours that it was planning to raise its industrial insurance premiums by 20 per cent.

FRANKFURT ran the twin themes – banks strong, carmakers weak – which have given its equity market some character since the ERM realignment and the reduction in German interest rates on September 14.

A 7 per cent drop in nine-month sales at Daimler's Mercedes-Benz car division, and talk of a downgrade to nil in Warburg's 1993 earnings forecast for Volkswagen, left Daimler DM3.50 lower at DM522, and Volkswagen DM5.70 down at DM252.90.

Banks posted strong gains on the recovery in the Bunds, and recurrent talk of a downward trend in German interest rates. Deutsche Bank rose DM12.30 to DM632.80, Dresdner by DM7.50 to DM345.50 and Commerzbank by DM4.50 to DM238.

Since September 14 the banks have lost less than 1 per cent on a crude average, compared with 16 per cent for the big three carmakers and 10 per cent for the DAX index, which rose 15.70 to 1,436.05 yesterday.

ZURICH, lifted by lower Swiss interest rates and the firmer dollar, saw the SMI index rise 37.7 or 2.1 per cent to 1,858.2.

In financials, Union Bank rose SFr24 to SFr790 and CS Holding by SFr55 to SFr1,975; among insurers, Winterthur gained SFr80 at SFr2,830 and Zurich SFr45 at SFr1,945. Pharmaceuticals featured a SFr110 rise to SFr3,530 in Roche certificates and SFr12 to SFr625 for Ciba Geigy bearers.

Heavy industry was weak but the South African-controlled Richemont rose SFr90 to SFr1,050 following this week's implementation of its 10-for-one stock split.

MILAN continued its rebound on hopes that the recent drop in the lira would improve the outlook for Italian exports. The Comit index rose 8.82 to 369.93 in turnover estimated at around Tuesday's L129bn. Fiat was fixed 5.8 per cent or L205 higher at L3,755 and Stet recovered another 7.4 per cent or L80 to L1,160.

Italmobiliare and its cement group, Italcementi, were suspended by Consob.

*AMSTERDAM remained sub*dued as the CBS Tendency index edged up 0.1 at 107.8. Royal Dutch was affected by a downgrading of Shell UK and closed down 30 cents at Fl 141.90 while a sell note on Unilever took it Fl 1.70 lower to Fl 181.60.

MADRID made ground as domestic banks bought across the board. The general index gained 3.65 to 186.80. Good volumes were noted in Ibredrola I, up Pta27 at Pta557, and Union Fenosa, Pta4 better at Pta354.

STOCKHOLM rose as an easing in marginal lending rates from 20 per cent to 18 per cent drew foreign investors into the market. The Affärsvärlden General index rose 12.4 to 655.5 in turnover of SKr394m.

Ericsson B and Astra free shares dominated trading, gaining SKr4 to SKr105 and SKr5 to SKr503. But Volvo free shares shed SKr11 to SKr214. Some analysts attributed the fall to weak European car demand.

BRUSSELS closed mostly higher, in line with other European markets. The Bel-20 index rose 8.93 to 1,077.15. Société Générale de Belgique, which on Tuesday reported a 6.3 per cent fall in first half net, was one of the day's biggest gainers, climbing BFr50 or 2.8 per cent to BFr1,810.

HELSINKI's banks recovered some of the sharp losses they sustained earlier this week, the banks and finance index rising 13.1 per cent as the Hex index rose 9.1, or 1.5 per cent to 612.2.

VIENNA's ATX index rose 2.98 to 771.53 but Lenzing, the textile and fibre manufacturer, went against the trend, slipping Sch9 to Sch619 after warning that the dividend may be cut this year.

Kuwait marks symbolic return of equity trading

But it may take six months before transactions return to former levels, reports **Mark Nicholson**

KUWAIT'S stock exchange, which closed with a bang in the Iraqi invasion of August 1990, has reopened with a whimper.

Since its doors were reopened on September 28, the market has seen a little under 80 transactions a day in no more than a dozen shares. So few stocks are being traded that the Al-Shall agency, which provided the market's index before the war, is publishing only a temporary index of the six most traded shares. In the first week this showed a 22.4 per cent slump in prices.

According to Mr Jassem al-Saddoun, Al-Shall's managing director, it will take six months before the market returns to an approximation of its former self – the Gulf's biggest market with a capitalisation of around $3.4bn. "It will take that long for the market to assess the new government, the state of the economy and the social and political conditions in Kuwait," he says.

But it is likely to take far longer than that before trading on the exchange does anything like justice to its setting: a cavernous brown marble edifice which is among the most imposing of Kuwait's commercial buildings.

Although the building's fabric survived the Iraqi invasion essentially unscathed, the havoc caused by the Gulf war to Kuwait's financial and economic system meant that it took 19 months before it was able to reopen its glass doors.

That is how long it took the 31 companies now quoted to produce acceptable accounts. A further 21 companies are still untangling the financial mess caused by the invasion and Mr Hisham al-Otaibi, the exchange's president, reckons that it will be early next year before the full complement of pre-war stocks are back on the market's board.

However, once all 52 companies regain their listing,

A full revival of the market will also await the recuperation of Kuwait's economy, the private sector of which has been crippled both by the direct effects of the Iraqi troops' vandalism and the indirect effects of the government's decision to try to halve the pre-war population

Kuwait's stock exchange will find itself on its firmest footing for a decade – the result of the government's decision earlier this year to clear the financial system of billions of dollars worth of debts resulting both from the Gulf war and the disastrous 1982 collapse of the informal and unregulated Souq al Manakh kerb stock market.

The collapse of the Manakh market, which had soared unsustainably on rampant share speculation paid for largely by post-dated cheques, had left Kuwait's banks and investment houses shackled with a total of KD1.9bn ($570m) worth of unpaid debts on their books even before the Gulf war. The war itself has made KD3.8bn worth of business and consumer loans by the financial institutions go sour.

Earlier this year, the government agreed to take on all these debts, buying them from the banks and investment companies in a massive one-off sale of government bonds. The banks, and scores of other companies, were therefore able not only to produce accounts, but more soundly-based accounts than they had been able to publish since 1982.

Even so, it is likely to take years before the stock market recovers fully from the double shock of the Manakh and the Gulf war. The Manakh crisis, in particular, has left the market badly out of kilter.

For one thing, government bail-outs resulting from the crisis have left it in possession of around 60 per cent of the total shares in issue. For another, the only bank of Kuwait's six commercial institutions that remained profitable after the Manakh crisis, National Bank of Kuwait, became such a Goliath blue chip that its stock alone accounts for 30 per cent of the market's capitalisation. Since the market's reopening, NBK stock has accounted for 64 per cent of all transactions.

A full revival of the market will also await the recuperation of the economy, the private sector of which has been crippled both by the direct effects of the Iraqi troops' vandalism and the indirect effects of the government's decision to try to halve the pre-war population of 2.2m.

Given the exchange's limping start and its dependence on a broader economic recovery, many believe that reopening was essentially symbolic. "Whenever the stock market is working normally, Kuwait is working normally, is the thinking," says Mr Saddoun. "It is more of a psychological event than an economic one."

ASIA PACIFIC

Program selling leaves Nikkei lower again

Tokyo

PROGRAM selling in the late afternoon eroded earlier gains and left share prices lower, *writes Emiko Terazono in Tokyo.*

The Nikkei average fell 156.36 to 17,111.74, the day's low, having firmed initially on buying by individuals, and index-linked purchases by investment trusts, rising to the day's high of 17,531.09 in early afternoon trading.

Volume remained thin at 230m shares against 235m. Advances led declines by 528 to 370 with 173 unchanged. The Topix index of all first section stocks dipped just 0.04 to 1,299.09 and, in London, the ISE/Nikkei 50 index rose 1.66 to 1034.93.

In spite of small-lot buying by public investment funds, leading investors failed to follow suit.

The government's stock market support measures, announced with the emergency fiscal support package, included suppression of supply by guiding financial institutions to refrain from heavy selling, and by halting new share offers. On the demand side, an extra Y1,120bn was added to the original figure of Y5,680bn of public funds scheduled for investment.

Now, following the interim closing of books at September 30, small-lot selling has emerged as authorities have loosened their grip on sellers.

Worries over corporate earnings affected some high-technology issues. NEC, down Y4 at Y691, was one company affected by reports of lower earnings for the fiscal year.

Showa Denko, the chemical company, rose Y6 to Y290 on reports that it will forge product development links with Asahi Chemical Industry, which advanced Y4 to Y600.

Pharmaceuticals were firm, with Nikken Chemicals gaining Y30 to Y1,040 and Takeda Chemical adding Y30 to Y1,180. Both issues were popular on their research into drugs for Alzheimer's disease.

Short-term speculators targeted Kubota, the most active issue of the day, which rose Y30 to Y597. It was bought on the environmental and public works theme; some investors hope that an increase in environmental and public works projects will increase demand for its plumbing systems.

In Osaka, the OSE average rose 190.25 to 18,948.97 in volume of 7.3m shares.

Roundup

ANY rally in Pacific Rim markets yesterday appeared to be short-lived.

HONG KONG reversed early losses to finish higher as bargain-hunters used Governor Chris Patten's maiden policy speech as an excuse to buy. The Hang Seng index was up 35.91 at 5,589.03, having touched a low of 5,498.07 earlier in the session. Turnover fell to HK$1.47bn from HK$1.74bn.

Blue chips, which had suffered the greatest losses on Tuesday and earlier in the day, rebounded considerably, with Cheung Kong gaining 10 cents to HK$20.50 and HSBC Holdings adding 50 cents to HK$55.50.

SINGAPORE's brief rally ended abruptly as cautious investors sold off shares in late afternoon trading. The Straits Times Industrial index fell 0.89 to 1,331.67 in volume of only 25.64m shares.

SEOUL rose on active intervention by institutional investors and the Securities Stabilisation Fund. The index gained 16.62 to 524.38 but brokers said the rally could be short-lived.

TAIWAN ended off its highs as investors took quick profits from early gains. The weighted index 29.25 higher at 3,592.12 in turnover of T$13.1bn.

MANILA finished lower in slow trading as a downturn in major overseas markets continued to dampen sentiment. The composite index slipped 9.96 to 1,407.80 in combined turnover of 336m pesos after 367m.

KUALA LUMPUR fell in the afternoon on renewed selling as investors remained concerned about the market's near-term direction. The composite index ended down 0.11 at 590.59 after standing 2.47 higher at midday, in volume of 61.9m shares.

AUSTRALIA's early rally ran out of steam in the afternoon, leaving shares only slightly higher on the day. The All Ordinaries index closed 3.0 higher at 1,455.4. Turnover was light at A$219.7m. NEW ZEALAND was hindered by Carter Holt Harvey, whose 7 cent fall to NZ$2.37 was the main reason for the 3.95 point fall in the NZSE-40 index to 1,392.31. Turnover was NZ$19m. Donaghys gained 15 cents to NZ$3.20 after news of its one-for-10 scrip issue.

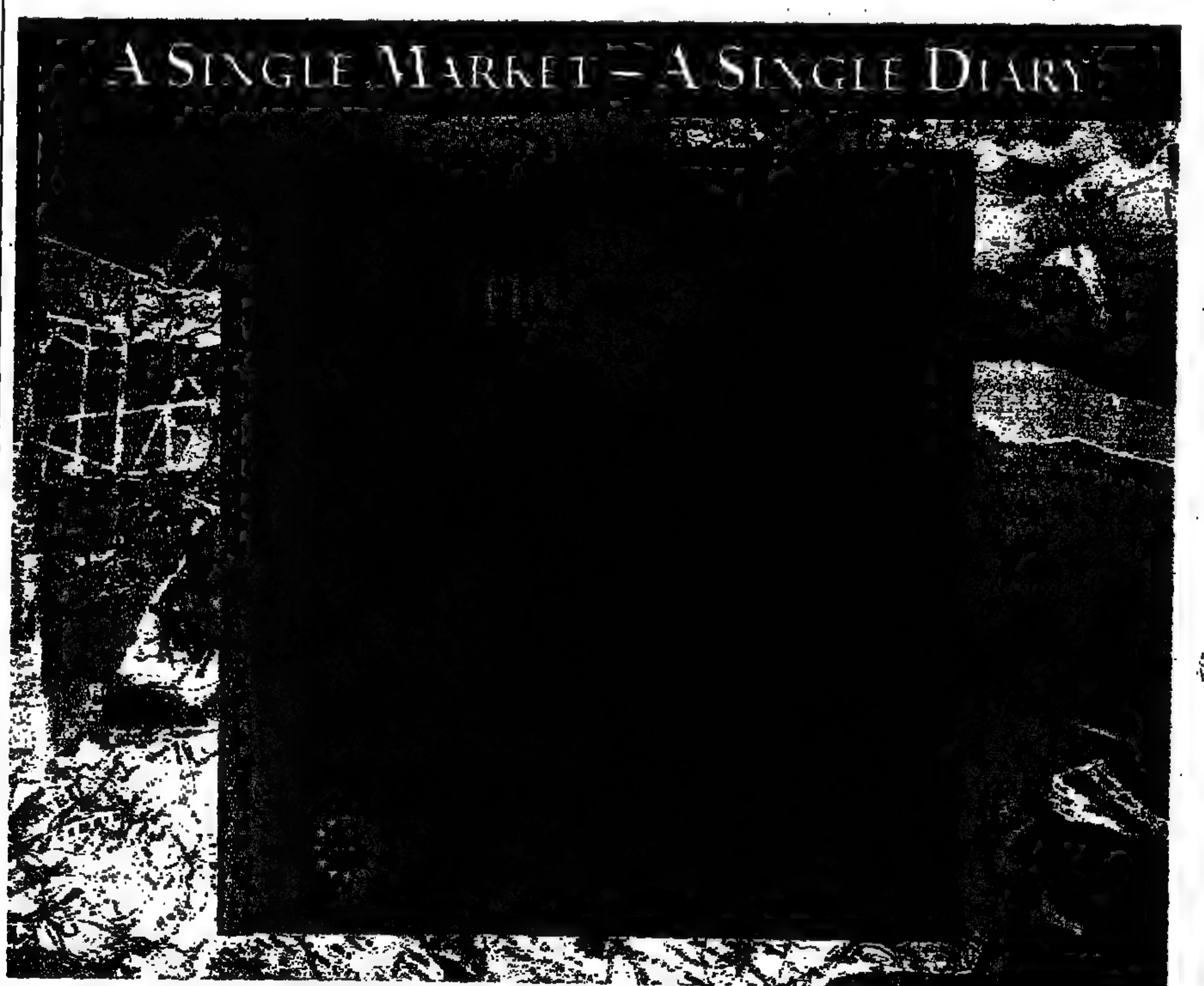
SOUTH AFRICA

JOHANNESBURG eased in quiet trading with gold stocks depressed by the stronger financial rand. The gold index lost 21 to 874 while the overall index shed 21 to 3,082 and industrials fell 8 to 4,080. Anglos slipped R2 to R85.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	WEDNESDAY OCTOBER 7 1992								TUESDAY OCTOBER 6 1992					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	1992 High	1992 Low	Year ago (approx)
Australia (68)	122.49	+0.0	105.77	92.91	91.71	113.08	+0.1	4.31	122.45	106.05	92.73	91.04	113.01	153.68	122.45	151.67
Austria (19)	156.25	−0.2	134.92	118.52	116.98	116.76	+0.7	2.50	156.52	135.54	118.53	116.36	116.01	186.70	139.27	172.21
Belgium (42)	142.45	+0.0	123.01	108.05	106.65	104.34	+0.9	5.90	142.39	123.31	107.82	105.86	103.42	152.27	135.87	128.40
Canada (114)	113.80	−0.5	98.26	86.32	85.19	102.84	−0.4	3.44	114.34	99.02	86.58	85.00	103.29	142.12	112.50	133.93
Denmark (33)	198.69	−1.4	171.56	150.72	148.75	150.32	−1.0	1.90	201.54	174.53	152.62	149.84	151.79	273.94	196.78	247.93
Finland (15)	57.89	+0.3	49.98	43.91	43.34	56.15	+0.3	2.56	57.74	50.00	43.72	42.92	55.00	89.80	52.84	84.05
France (101)	150.47	+1.5	129.92	114.13	112.64	115.42	+2.3	3.91	148.17	128.32	112.20	110.15	112.78	168.75	148.06	139.98
Germany (64)	109.65	+0.3	94.68	83.18	82.09	82.09	+1.0	2.79	109.33	94.68	82.80	81.28	81.28	129.69	109.33	106.20
Hong Kong (53)	230.91	+0.7	199.38	175.15	172.88	229.16	+0.7	3.86	229.33	198.60	173.66	170.50	227.49	259.55	176.36	168.62
Ireland (16)	139.12	−2.3	120.12	105.53	104.15	108.79	−2.0	5.08	142.35	123.27	107.80	105.83	108.98	173.71	139.12	155.48
Italy (77)	50.04	+3.5	43.21	37.95	37.46	48.56	+2.7	4.29	48.35	41.87	36.61	35.95	47.29	80.86	47.47	70.22
Japan (472)	107.94	−0.3	93.21	81.88	80.82	81.88	−0.1	1.04	108.24	93.74	81.97	80.48	81.97	140.95	87.27	141.47
Malaysia (69)	245.06	−0.2	211.61	185.88	183.46	235.72	−0.2	2.77	245.61	212.70	185.99	182.60	236.15	250.65	212.49	191.16
Mexico (18)	1326.10	−0.9	1145.06	1005.90	992.79	4510.60	−0.9	1.33	1337.73	1158.47	1013.03	994.54	4549.42	1789.77	1185.84	1247.36
Netherland (25)	162.81	−0.8	140.59	123.50	121.89	120.64	+0.0	4.70	164.15	142.16	124.31	122.04	120.62	169.70	147.66	138.14
New Zealand (14)	40.09	−0.4	34.62	30.41	30.02	39.18	−0.3	5.78	40.27	34.88	30.50	29.94	39.31	48.52	40.09	46.44
Norway (22)	138.52	+0.2	119.61	105.07	103.70	110.46	+0.7	2.19	138.23	119.71	104.68	102.77	109.66	192.95	136.40	191.48
Singapore (38)	186.33	−0.4	160.89	141.34	139.49	136.66	−0.3	2.40	187.05	161.99	141.65	139.06	137.06	229.63	160.71	185.45
South Africa (60)	157.16	+8.4	135.70	119.21	117.65	150.17	−0.8	3.39	144.92	125.50	109.74	107.74	151.37	263.60	144.29	249.14
Spain (48)	112.30	+1.6	96.97	85.18	84.07	87.37	+2.5	6.82	110.53	95.72	83.70	82.17	85.20	161.72	110.05	151.41
Sweden (31)	152.64	+2.0	131.80	115.78	114.27	123.15	+2.6	3.19	149.69	129.63	113.38	111.29	120.05	200.28	149.69	180.95
Switzerland (60)	117.84	+0.7	101.76	89.40	88.24	92.27	+1.9	2.32	117.02	101.34	88.62	87.01	90.54	122.37	95.99	92.82
United Kingdom (228)	171.13	+1.5	147.77	129.80	128.10	147.77	+1.2	4.96	168.60	146.00	127.66	125.33	146.00	200.07	164.66	177.82
USA (522)	165.16	−0.7	142.61	125.28	123.65	165.16	−0.7	3.08	166.28	144.00	125.92	123.63	166.28	173.39	160.92	153.17
Europe (761)	137.56	+1.1	118.78	104.34	102.99	111.11	+1.4	4.23	136.08	117.84	103.05	101.17	109.59	156.88	135.66	138.86
Nordic (101)	143.57	+0.7	123.97	108.90	107.48	109.25	+1.3	2.70	142.53	123.43	107.94	105.97	107.88	188.52	142.53	179.29
Pacific Basin (714)	112.15	−0.2	96.84	85.08	83.97	86.99	−0.1	1.39	112.39	97.33	85.12	83.56	87.04	141.97	93.70	141.72
Euro – Pacific (1495)	122.43	+0.4	105.72	92.86	91.65	96.82	+0.6	2.68	121.98	105.63	92.36	90.66	96.25	145.21	113.80	140.93
North America (636)	161.96	−0.7	139.85	122.87	121.27	160.92	−0.7	3.09	163.05	141.20	123.49	121.24	162.00	170.49	158.70	151.90
Europe Ex. UK (553)	117.26	+0.8	101.25	88.96	87.81	91.04	+1.5	3.70	116.34	100.75	88.12	86.51	89.69	132.98	116.34	115.87
Pacific Ex. Japan (242)	153.44	+0.2	132.49	116.41	114.89	139.41	+0.3	3.82	153.13	132.61	115.98	113.86	139.08	175.31	149.00	144.08
World Ex. US (1687)	123.21	+0.4	106.39	93.47	92.25	98.70	+0.5	2.70	122.66	106.23	92.90	91.20	98.18	146.91	116.18	142.51
World Ex. UK (1981)	133.13	−0.2	114.96	100.99	99.68	116.25	−0.1	2.60	133.38	115.51	101.01	99.17	116.37	150.58	127.21	141.91
World Ex. So. Af. (2149)	136.36	−0.1	117.76	103.46	102.11	118.78	+0.0	2.85	136.49	118.20	103.37	101.48	118.73	153.05	130.04	144.35
World Ex. Japan (1737)	152.79	+0.1	131.93	115.91	114.41	140.56	+0.1	3.52	152.66	132.20	116.62	113.51	140.44	165.40	152.57	148.33
The World Index (2209)	136.42	+0.0	117.80	103.49	102.14	119.09	+0.0	2.85	136.44	118.16	103.33	101.44	119.05	153.70	130.86	145.04



FINANCIAL TIMES SURVEY

DENMARK

SECTION III

Thursday October 8 1992

Denmark's future relationship with Europe will be determined over the next few months. Meanwhile, the country is living in suspended animation as a result of uncertainty caused by the Maastricht dilemma and the recent currency turbulence in Europe. **Hilary Barnes** reports

Suspended animation

THE *self-confidence*, indeed self-satisfaction, of the Danes can rarely have soared to such *heights as it did in June this* year when they opened the month by rejecting the Maastricht treaty in a referendum on June 2 and then went on to win the European soccer championships.

Ever since those heady days the Danes have enjoyed the feeling that David must have had after slaying Goliath.

Nothing, perhaps, better *illustrates the extraordinary* upsurge in national feeling than the fact that more people turned out in Copenhagen to welcome home the soccer team than took to the streets on Liberation Day in 1945 to celebrate the end of German occupation.

But the country's leaders have not shared so fully in the popular euphoria. They have a deeply worried look.

The optimistic view of the consequences of the Danish No to Maastricht is that Denmark has become a catalyst for change in public and political opinion and that modifications to Europe's structure will follow *which will make the Community* more acceptable to public opinion.

The pessimistic view is that the Danes have placed themselves firmly on the sidelines of Europe and that what was seen by the voters as an assertion of national independence will instead render Denmark *dependent on the Community*, but without influence on its deliberations or decisions.

The drama of Denmark's future relationship with Europe will be played out over the next few months and what the Danes themselves think or do may be of relatively little significance compared with what the Germans, the French, the British and others decide.

In the interim, the country is living in suspended animation. All systems have gone into dead-slow as a result of the uncertainty caused by the Maastricht dilemma and the currency turbulence in Europe over the past few weeks.

Economic activity has sunk to such a low level, says Mr Knud Sorensen, chief executive of the country's largest bank, "that people can't even be bothered to paint their own kitchens any longer."

Still, Denmark's real GDP is expected by the government to increase by about 1.3 per cent this year and, but for the worst *harvest for generations*, caused by a long early-summer drought, the growth rate would have been half a point higher, which would have put the country among Europe's better performers.

Copenhagen: A catalyst for change or dependent on the Community, but without influence on its deliberations? Picture: Alan Harper

Denmark itself was not at the eye of the currency storm. Speculation against the krone pushed short-term market rates of interest to exotic levels (at the time of writing, the one-month CIBOR was 29 per cent), but the Nationalbank [central bank] did not have to raise its *own* key interest rates to control the crisis. Given the state of the Danish economy just a few years ago, the ability of the country to weather the currency storm relatively unscathed is remarkable.

Over the past 10 years, under the guidance of a succession of minority governments all headed by Mr Poul Schlüter, the Conservative Party leader who celebrated his 10th anniversary as his country's leader on September 10, the external strength of the economy has been transformed.

In 1982, Denmark was suffering from both an uncomfortably large external deficit and a budget deficit which peaked at about 11 per cent of GDP. In the 1980s, the twin deficits were brought under control.

The current balance of payments is now in substantial surplus of about DKr25bn; more than 2 per cent of GDP. *The budget, for a brief period* back in surplus, is in deficit again, but the deficit is relatively small – about DKr38bn or just over 3 per cent of GDP.

If the Folketing [parliament] so decides, Denmark qualifies as a core member of the European Economic and Monetary Union, but on present evidence the Folketing will decide otherwise.

Resolution of the problems caused by the No to Maastricht will remain at the top of the political agenda for some months, but not to the exclusion of other issues. The improvement in the external strength of the economy has yet to be paralleled by reforms which can strengthen the domestic economic performance. This will be the dominant issue of the 1990s.

There is a feeling in the air that after 10 years with Mr Schlüter and the Liberal Party leader, Mr Uffe Ellemann-Jensen, foreign minister since 1982, the time for a change *may be arriving.*

The opposition Social Democratic Party, which dominated Danish politics from the late 1920s *until 1982* and is smarting at its long period in opposition, changed its leader in April electing Mr Poul Nyrup Rasmussen, 48, a former chief economist at the *Trade Union* Confederation.

As a person and as a politician, the small centre parties, especially the Radical Liberals and the Centre Democrats, which are the king-makers in *Danish politics, find him* to be a more acceptable candidate for prime minster than either of his predecessors.

But unless Mr Rasmussen shows willingness to consider radical changes in the structure of the bloated welfare state – which the Social Democrats were primarily responsible for building up – parliamentary support for a change *of regime may evade him*, says Mrs Marianne Jelved, the leader of the Radical Party.

Meanwhile, the parties which advocated a Yes to Maastricht – the Conservative and Liberal government parties plus the Social Democrats, the Radical Liberals, the Centre Democrats and one half of the Christian People's Party, representing almost five-sixths of the seats in the Folketing – have worked out a strategy to ensure that Denmark can nevertheless remain a fully participating member of the European Community.

Denmark's negotiating position is not without some strength because the treaty cannot be implemented without the signature of all 12 members.

The reality, however, is that if all the other 11 ratify but Denmark finally refuses to sign, it will cause considerable inconvenience for the other members. But the 5.1m Danes will not stop the other governments from going ahead with a European Union if they are determined to do so.

The government's policy, therefore, is to gain authority to sign the treaty from a second referendum next year – but with several reservations or exceptions for Denmark to parts of the treaty.

Mr Schlüter has outlined a three-part package as the basis for next year's referendum.

- The first part will consist of an unchanged treaty text. To persuade the voters to swallow the treaty, two sweeteners will be added.
- *Part two of the package* will be a new agreement between all 12 members committing the Community to greater openness in its deliberations and emphasising that the principle of subsidiarity must, as it is *intended, minimise* interference from Brussels in the status and authority of national legislatures.
- The third part will consist of special arrangements, or exemptions, for Denmark.

The detail of the special arrangements which Denmark wants have still to be hammered out in inter-party negotiations. The Danish proposals will not be ready in time for the October 16 summit, but before that date a white paper setting out the Danish options is due to be published. The proposals are *scheduled to be presented* in late October or in November in preparation for the Community's Edinburgh "summit" meeting in December.

But the broad outlines of the Danish requirements are clear and reflect what the voters on June 2 are deemed to have objected to most strongly in the Maastricht treaty.

The Danes are uncomfortable with the idea of a common European defence (other than Nato) and allergic to the idea of a European army, so the *first requirement will be an* exemption from Danish participation in a common European defence policy.

There is strong antipathy to the introduction of a common currency, so the second *requirement* will be an assurance that Denmark is not committed to participation in the third stage of Economic and Monetary Union.

Two parties advocated a No to Maastricht; the right-wing Progress Party and the left-wing Socialist People's Party. Ideally, the Yes parties would like to ensure the support of at least one of the No *parties, more especially* the Socialist Peoples Party.

The treaty was defeated primarily because the supporters *of the Social Democratic Party* ignored the advice of the party leadership. More than 60 per cent of the party's supporters voted against the treaty. It is felt that it would reassure left-wing voters if the SPP backed a Yes next time, but Mr Holger K. Nielsen, the party's leader, is keeping his options open.

If the Danes vote No in a *second referendum* it will be a tragedy, says Mr Schlüter. Denmark would then have to obtain some kind of associate membership of the Community. At worst, such a relationship could mean that the EC refuses to allow Denmark to continue to participate in the common agricultural and fisheries policies.

Agriculture and the related *food processing industries* account for about 25 per cent of Denmark's merchandise exports and Denmark is one of the Community's largest exporters of agricultural products to third countries. Exclusion from the CAP would therefore have extremely serious economic consequences for Denmark.

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Editorial production: Phil Sanders

■ DOMESTIC POLITICS

Gap between leaders and led

MR Poul Nyrup Rasmussen, elected leader of the Social Democratic Party last April after a leadership contest, has succeeded in irritating his political adversaries by calling for a public debate on the subject of political and business ethics.

The 48-year-old party leader's point in playing the the ethical card is that he thinks there is a crisis of confidence in relationships between the politicians and the voters and that an emphasis on morality is necessary to restore a relationship of trust and understanding between the two.

As leader of the Social Democratic Party he has a particular problem, because voting in the referendum on the Maastricht treaty in June demonstrated a particularly wide gap between the party leadership, which campaigned for a Yes, and the party's supporters, of whom at least 60 per cent voted No.

He has somehow to establish a new sense of understanding between the party and its supporters.

The electorate's rejection of the Maastricht treaty, after the Folketing had approved it by 130 votes to 25, is only one aspect of a gap between leaders and led, however, and it goes beyond politics.

The colossal losses sustained by the financial sector and the summary dismissal of some of the best-known names in the local financial world – Mr Per Villum, Hansen Hafnia's chief executive officer, in April, and Mr Steen Rasborg, Unibank's chief, in August, to name only two – has started a debate on the ethics of the business world.

Many people, Mr Rasmussen among them, are offended by the fact that managers who have lost large sums of shareholders' money have received substantial (by Danish standards) "golden handshakes."

Mr Rasmussen has given a party-political edge to the ethical debate, painting the Conservative-Liberal coalition government as being, morally speaking, slightly frayed around the edges after 10 consecutive years in office.

The charge relates more especially to an affair known as the Tamil scandal, a running sore on the body politic which may lead to the collapse of the government this winter.

The Tamil scandal began in 1987 when the then minister of justice, who has since resigned, ordered postponement of permission for the relatives in Sri Lanka of Tamil refugees in Denmark to join their families in Denmark.

This infringed the legal right, under Danish law, of the Tamil refugees to bring their close relatives to Denmark. Ministry of Justice civil servants connived at the minister's act of maladministration,

Crisis of confidence? Prime Minister Schlüter (left) and Foreign Minister Ellemann-Jensen discuss the Maastricht poll result

which has caused a collapse of political confidence in the ministry.

In the spring of 1989, Mr Poul Schlüter, the Conservative Party leader who celebrated his 10th anniversary as his country's leader on September 10, made a report to the Folketing on the Tamil issue in which he assured the Folketing that "nothing has been swept under the carpet."

For more than a year a judicial inquiry led by a High Court judge has taken evidence to establish whether there is a case for impeaching any of the implicated ministers. It is expected that the report will be published late this autumn, but no date has been set yet.

The issue in Mr Schlüter's case is what he knew and when he knew it, and did he, in order to protect the reputation of his minister of justice, mislead the Folketing in his "carpet" speech.

If the report criticises the prime minister, who, say colleagues, is absolutely convinced that he acted in good faith all along, there is little doubt that the small centre parties – the Radical Liberals, Centre Democrats and the Christian People's Party – will pull the carpet out from under him.

"In other times, criticism might not have been taken so seriously, but the ethical climate caused by the crisis of confidence between people and politicians will affect the outcome of the Tamil case," predicted Mr Herbert Pundik, editor-in-chief of the respected Copenhagen daily newspaper Politiken.

If the Tamil scandal does not help Mr Rasmussen into office – and Mr Schlüter has made it clear that he will not go without calling an election – Mr Rasmussen's way to power may not be easy.

In his 10 years in office, Mr Schlüter has always headed minority governments and often – on more than 100 occasions – had to accept defeats in the Folketing.

But he has remained in office because there has not so far been a majority in favour of a Social Democratic government.

Mr Schlüter's governments have put the economy back on an even keel, which is in itself a considerable achievement, but when it comes to such Conservative and Liberal dreams as lowering taxes, actually reducing public expenditure

Day of decision: Danes line up to cast their votes during the Maastricht referendum on June 2

(as opposed to slowing the rise) and weaning the individual from reliance on the welfare state, little has been achieved.

This, however, seems to be the way in which the agenda for the 1990s is shaping up, and it is an agenda which Mr Rasmussen's Social Democrats may have to accept if they want to return to power.

It is significant that the Radical Liberal Party, which holds the swing vote between left and right in the Folketing, shares this general attitude.

"Danes with a problem automatically assume that the commune (local council) will solve it. They can't stand on their own legs any more. This has got to change," said Mrs Marianne Jelved, Radical leader.

Some of Mrs Jelved's requirements for the 1990s include making the labour market, instead of the state, finance the unemployment benefit system; halting cash welfare benefits to under-25s; an end to subsidies to almost everyone through the housing system; and reductions in income taxes.

"We have got to loosen up the over-gearing of the welfare state. If the Social Democrats won't do so, they can forget about being the next government," said Mrs Jelved.

The Social Democrats cannot form a government without Radical support – and unfortunately for Mr Rasmussen, the other party whose support he needs, the left-wing Socialist People's Party, is not sympathetic to Mrs Jelved's brand of liberal reform.

In government, Mr Rasmussen would go for "a controlled loosening" of fiscal policy in order to increase domestic demand and create more jobs, but he aims to maintain the present government's low-inflation policy and will stick to the fixed exchange through membership of the exchange rate mechanism of the European Monetary System, he says.

Lower taxes are not on his agenda, which seems very much like a traditional Social Democratic programme with heavy reliance on large public spending programmes.

Among highlights of his party's programme are substantial new spending on infrastructure investment in roads, railways and ports; subsidies for urban renewal programmes; and ambitious programmes to provide job opportunities through job rotation and activating the unemployed by providing places in training and educational courses.

Hilary Barnes

■ LIFESTYLE

A statistical portrait

Life begins in an institution for the average Dane, because both parents are out to work.

This is one of the most marked changes in the way the Danes live over the past 20 years, according to the 1992 edition of Living Conditions in Denmark, a statistical picture of the way they live now by the Central Bureau of Statistics and National Social Research Institute.

The housewife has almost disappeared, comprising only 4 per cent of the female population by occupation today compared with 43 per cent in 1974.

The labour force participation rate for women aged 16-66 is 76 per cent as against 37 per cent in 1950. In the age group 25-44 among married women, 91 per cent work, only slightly fewer than the 95 per cent of men in that age group who work.

Among families with small children (aged six or less), both parents work full time in 42 per cent of the families, and in another 36 per cent one parent will have a part-time job while the other works full time. Only one in five children is cared for full-time by a parent.

Some 48 per cent of all children aged two or less spend the day in a day-care institution, a figure which rises to 67 per cent for the three-to-six age-group (the normal school starting age is seven). In 1973, only 10 per cent of the youngest age-group were looked after in day-care institutions and only 32 per cent of the three-to-six age-group.

Children can count themselves quite lucky to get into this world. In 1990 there was one legal abortion for every three live births: 20,600 abortions for 63,500 births.

Most parents of small children are married, but about 27 per cent of children up to the age of two years live with parents who cohabit without a marriage certificate and 12 per cent live with only one parent. About one fifth of all cohabiting couples live together without a marriage certificate.

Divorce is frequent, and the incidence is rising. About 28 per cent of marriages made in 1970 ended in divorce 15 years later, doubling the rate compared with those married in 1950. The rate will be even higher for those married in 1980, among whom the divorce rate was 14 per cent after five years.

The fact that men do more of the chores about the house is evidently not helping much. Half the men say they do 25-50 per cent of the household chores; in 1976 only a quarter of the men claimed to do as much around the house.

Most families (85 per cent) with children live in single-family houses, although only about 54 per cent of all households live in owner-occupied dwellings. They have plenty of space: more than 60 per cent live in dwellings with more than one room per person and only 10 per cent in dwellings with more than one occupant per room.

Much has happened in education over the past 30 years. In 1991, 28 per cent of the 20-29 age group had passed the basic university matriculation exam ("student exam" – equivalent to A-levels in England) compared with only 5 per cent in 1962. Some 44 per cent obtained the exam-based school-leaving certificate at 16 compared with only 17 per cent in 1962.

About 15 per cent of this age-group receive no further training after leaving school, down from 31 per cent in 1980. Some 63 per cent of the men and 52 per cent of the women obtain post-school education or vocational training.

Among men, 58 per cent work 37-38 hours a week (the standard working week), while 26 per cent work more. About 45 per cent of women work the standard week and 10 per cent work more. Sickness absenteeism is low; 3.9 per cent among hourly paid men and 5.7 per cent among hourly paid women, falling to 1.6 per cent for men and 2.8 per cent for women in salaried positions.

Use of data processing equipment at work is frequent but not yet ubiquitous. Among employees in senior or intermediate positions, half spend half their time using data equipment while just over a third never use it. A third of lower level salaried personnel and about 14 per cent of hourly paid skilled workers use data equipment.

Some 76 per cent or more of those who are skilled workers or have salaried jobs say that work enables them to learn something new and to become more qualified, while about 47 per cent of unskilled workers had this view.

Income distribution, as measured by calculated life-time earnings, seems to be relatively even, although the distribution of wealth remains heavily unbalanced. The richest one tenth of the population owned 63 per cent of assessed net assets in 1986 compared with 84 per cent in 1939. The poorest tenth owned 1 per cent of the wealth.

Total lifetime income by occupation has become more even over the past 20 years. A law or economics graduate in 1970 could look forward to lifetime earnings which were double the earnings of a skilled worker, but today he or she can only expect to earn 130 per cent more. A teacher in the ordinary schools (children aged seven to 16) will earn about 110 per cent of a skilled worker's lifetime income.

Some people remain poor, however. About 4 per cent of the population had an income of less than DKr1,000 a week in 1986 and another 5 per cent had an income of less than DKr1,500 a week.

About 91 per cent of households have a colour television, 95 per cent a telephone, 88 per cent a refrigerator-freezer, 67 per cent a washing machine, 27 per cent a dishwasher, 58 per cent a car and 14 per cent a personal computer.

Hilary Barnes

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■ THE ECONOMY

Strength and stability

DENMARK did not get much of a mention during the recent turbulence in European foreign exchange markets – which, as Mrs Bodil Nyboe Andersen, deputy governor of the National Bank [central bank] put it, was "a good sign".

Mr Henning Dyremose, finance minister, and Mr Anders Fogh Rasmussen, economy minister, never tire of asserting that the country has one of the strongest economies in Europe, and they would like to keep it that way.

By strong, they mean that there is a large current balance of payments surplus, low inflation and a moderate budget deficit.

The balance of payments surplus was DKr23bn, or 2.6 per cent of gross domestic product, in the 12 months to June. Consumer prices rose by 2.1 per cent over the 12 months to August.

The budget deficit in 1992 will be about DKr38bn, or 4.4 per cent of GDP, while the total public sector borrowing requirement, according to government estimates, will be about DKr17bn, or 1.9 per cent of GDP, this year and slightly lower in 1993.

The surplus on trade in goods and services over the 12 months to June was about DKr56bn, or 6.5 per cent of GDP. Denmark is one of the few countries to meet the so-called convergence criteria required of countries participating in the third and final stage of the EC's economic and monetary union.

Ironically, however, it is likely to make exemption from a commitment to join Emu one of the conditions for solving the problems caused by its rejection of the Maastricht treaty in the June referendum.

The external strength of the economy may be weakened by the depreciation of sterling and the lire, by the savage fiscal policy imposed by Sweden this autumn, and by the slowdown in the German economy.

Britain is especially important for exports of Danish agricultural products, notably bacon and other pigmeat products.

Germany and Sweden are the country's two largest export markets.

In its August economic survey, prior to the foreign exchange turbulence, the Economy Ministry predicted a volume increase in exports of 4.3 per cent in both 1992 and 1993.

A somewhat lower growth rate in 1993 now seems probable. The economic strengths are paralleled by some economic weaknesses, especially low growth rates and high unemployment.

The annual average increase in GDP for 1987-91 was 1.1 per cent.

A bad harvest and rising interest rates forced the Economy Ministry to reduce its growth forecast for 1992 from about 1.7 per cent to 1.3 per cent, but it is hoping for a better 1993, with a forecast (in August) GDP growth rate of 2.5 per cent.

Unemployment is expected to average 10.7 per cent, or 305,000, this year. It has risen slowly but steadily from 9.3 per cent in 1989.

The combination of external strength with low growth and high unemployment has raised political demands "to spend the current account surplus" – that is, to relax fiscal policy in order to strengthen domestic demand and bring down unemployment.

Britain is particularly important for exports of Danish agricultural products, notably bacon and other pig meat

This issue will be an important one when the minority government sets out to navigate the 1993 budget through the Folketing this autumn (the final vote on the Finance Act takes place in mid-December).

The government's economics ministers see the budget deficit as a threat to the long-term stability of the economy, a point of view which has not been weakened by the currency turbulence in neighbouring countries, where large budget deficits have constituted part of the problem.

Mr Dyremose's 1993 draft budget strives to hold down expenditure, and includes cuts of DKr7.5bn just to prevent automatic increases in expenditure.

The proposed cuts include DKr3.5bn off transfer expenditure (from the government to households) and a 4,000 reduction in civil service employment.

Compared with the 1992 Finance Act estimates, central government revenue will rise in 1993 by 3.0 per cent to DKr306.5bn and expenditure by 4.3 per cent to DKr340.4bn.

The budget deficit will be rise from an estimated DKr28bn when the Finance Act was passed to DKr34bn next year but the actual deficit for 1992 is now expected to be DKr38bn, so, if the budget sums conform with reality, the deficit will fall in 1993.

It was already clear, before the Folketing assembled for the new parliamentary year on October 6, that there was majority support for a significantly looser budget than the government has proposed.

The cuts in transfer expenditure and reduction in civil service employment do not appear to have sufficient support to be carried through.

The opposition Social Democratic party (SDP) has presented a policy programme which, it claims, would create 170,000 jobs by the end of the decade.

While the government predicts that, if current policies are maintained, the net foreign debt – DKr264bn at the end of 1991 – will be eliminated by the end of the decade, the SDP claims that its policies will leave the deficit at about DKr30bn.

Most of the jobs which the SDP will create will be in the public sector.

It wants to increase the number of places for adult education and training by 60,000, to provide more jobs through labour market policies, to increase personnel in childcare services and care of the elderly, and to widen the opportunities for early retirement.

It also wants a big increase in infra-structure investments, a point on which its wishes are not so far from the government's.

It is quite possible that the budget negotiations will break down, resulting in an election. But assuming that the negotiations are successful and a compromise is found, it is certain that the budget will be looser than originally proposed.

This is not a prospect which appeals to the National Bank, as Mr Erik Hoffmeyer, the governor, has made plain.

Denmark ran up a large foreign debt as a result of 26 consecutive years with deficits on the current balance of payments account, between 1963 and 1989. And it entered the 1980s with an enormous budget deficit, peaking at about 11 per cent of GDP in 1983-85.

Bringing the two deficits under control has been a painful process.

It is easier to loosen fiscal policy than it is to tighten it again, and experience in the past with temporary easing of fiscal policy has always been bad, said Mr Hoffmeyer earlier in the autumn, when proposals for spending the current account surplus first surfaced.

"Now that we have achieved a stable economy for the first time in decades, let's not gamble it away again," he said.

Hilary Barnes

■ THE BANKING SECTOR

Relatively unscathed by recession

THE Danish banking and financial sectors have come through a five-year recession relatively unscathed – relative, that is, to developments in the other Nordic countries, where the governments have had to move in to support the banks.

Indeed, Danish bankers are unhappy when they hear the words "Nordic banking" these days because it lumps Denmark together with countries where the financial and banking crisis has had far more serious consequences.

The Danes have suffered one big disaster, the collapse of the Hafnia insurance group's holding company. Hafnia Holding suspended payments to creditors in August, when the falling value of strategic shareholdings in its domestic rival, Baltica, and Swedish insurer Skandia wiped out its equity capital. Hafnia's insurance companies are now up for sale.

The big bond-issuing mortgage credit institutes, which dominate mortgage financing in Denmark, are under pressure. Their structure is such that they do not run a risk of collapse, with loss to creditors, but they can reach a situation in which they can no longer make new loans.

Kreditforening Danmark, one of the two big institutes (the other is Nykredit), has come so close to this point that its chief executive, Mr Ole Andresen, has called on the government to consider easing the capital-adequacy ratio requirements as they apply to the mortgage credit business.

The banks are not having an easy time either. Taken together with savings banks, they suffered a net loss of DKr2.9bn in 1990, and DKr400m in 1991. Loss provisions soared from DKr6.57bn in 1989 to DKr10.40bn in 1990; and to DKr11.86 in 1991, when they were an unhealthy 4.5 per cent of loans and guarantees in the commercial banks and 4.8 per cent in the savings banks.

Loss provisions will be large again this year, perhaps just as large as in 1991. Nevertheless, the leading banks have not so far had serious problems in maintaining their capital adequacy ratios, and are able to raise subordinated loan capital without difficulty.

The basic reason why the banks have been able to absorb considerable losses, said Mr Knud Sorensen, chairman of the Danish Banker's Association and chief executive of Den Danske Bank, the country's largest bank, is that they were very strongly capitalised when the recession took hold.

When the new Bank of International Settlements (BIS) rules for capital adequacy were applied to the Danish banks, their average capital ratio was found to be almost 14 per cent. The banks were not faced with the problem of having to strengthen their capital ratios in the middle of a recession.

The government and the National Bank [central bank] fixed the minimum capital ratio at 10 per cent for 1990 and 1991, coming down to 9 per cent from January 1, 1993, and to 8 per cent in 1995. But the reduction in the ratio of equity capital to risk-weighted assets will be counter-balanced by a reduction in the share of subordinated loan capital which can be counted in the capital base.

The banks find that the rules are becoming a problem. "We are interested in maintaining high capital ratios, but at the same time we do not want to suffer competitively through having to maintain higher ratios than others," said Mr Sorensen.

Mr Thorleif Krarup, who in August was appointed chief executive of Unidanmark – the parent company for Unibank, the second largest bank – was more forthright. The rule that Danish banks, from next January, can only count 20 per cent of subordinated loan capital in the capital adequacy base is tougher than required by the BIS rules (in the UK, for example, banks will be able to count 50 per cent of subordinated loan capital in the capital-adequacy base). "I would like to see a discussion about this," said Mr Krarup.

Unidanmark chief Thorleif Krarup: more forthright

"It is very natural that the government and the National Bank should want to maintain absolute confidence in the system, but we need to ask whether the BIS rules are not enough in themselves.

"We have to be careful that credit policy does not become so restrictive that all new developments are brought to a halt," he said.

Mr Krarup emphasised that Unidanmark did not have a solvency problem. "There is no doubt that we can meet our capital adequacy requirements. We have an earnings problem, but not a solvency problem."

Unibank reported a DKr1.5bn first half loss this year, following losses of DKr1.1bn in 1990 and DKr1.7bn in 1991. A slightly higher loss than last year is forecast for 1992, depending partly on how prices move in the bond and share markets.

While Denmark's largest banks, which in addition to Danske and Unibank include Bikuben and Jyske Bank, remain strongly capitalised, a run of difficult years is putting pressure on some of the medium-sized regional banks.

Analysts will not be surprised if some of these banks run into capital-adequacy problems. In the past, it has been the rule that when smaller banks run into trouble, larger banks absorb them, often paying a considerable goodwill payment to the troubled bank's shareholders for the privilege.

"If a middle-sized bank went down now," said Mr Sorensen, "it would not be so easy for the bigger banks to go in and save it. They are too preoccupied with their own problems."

A situation would arise in which the finance industry supervisors and the National Bank had to mount a rescue action. Depositors' funds, however, are guaranteed by the authorities.

The banks generally have worked hard to reduce their costs, chiefly by reducing staff; but what they need now is lower interest rates and a more lively economy.

"We are living in a vacuum. Nothing is happening. People can hardly even be bothered to paint their kitchens," said Mr Sorensen.

During the high-inflation years, the assets used as collateral for loans to businesses and households rose steadily in value, and so did nominal incomes, while the value of debt was steadily reduced. In a low-inflation society, the value of assets used as collateral will not rise and neither will nominal incomes – which means that if a household or a business is faced with a financial shock, it will be much more vulnerable.

For the banks, said Mr Krarup, this might mean that loss provisions would rise by a factor of three compared with former times, so that instead of averaging 0.5-0.75 per cent of loans and guarantees, as they did until the late 1980s, the average would be closer to 2 per cent.

This would require adjustments to interest-rate margins (between rates on deposits and advances), which are still based on the expectation that loss provisions will come down to the old levels, and more sensible pricing, reflecting the new conditions, he added.

Meanwhile, there is a political problem troubling the banks. The government is considering how to lower the income tax rate, which would automatically reduce the tax value of mortgage relief.

This would cause a new fall in property prices, leading to a decline in the collateral for loans, said Mr Peter Erling Nielsen, specialist in monetary policy at Copenhagen University. "The system would not be able to stand this," he said. "We must not rock the boat just now. I am not sure that the politicians have understood this."

Hilary Barnes

■ FLOOD CONTROL RESEARCH

Worldwide help for water authorities

"AEROSPACE technology is spectacular, but water is important," says Professor Michael Abbott, who has been closely associated with the Danish Hydraulic Institute (DHT) for almost 30 years.

During this time he has helped it become one of the foremost hydraulics research institutes in the world. DHT is an autonomous self-supporting research body, associated with the Danish Academy of Technical Sciences.

Since its foundation in 1964 it has been headed by Mr Torben Sorensen. It is today carrying out the world's three biggest aquatic environment research programmes:

- the mathematical model of the Venice Lagoon [Mr Sorensen leads an international committee designing a system to protect Venice from the sea];
- the Danish Great Belt Bridge environmental monitoring system; and
- work for the Bangladesh river system and flood control management project.

Danish pre-eminence in water science owes much to Professor Abbott, British-born professor at the International Institute for Hydraulic and Environmental Engineering at Delft, the Netherlands, and adviser to the Danish institute.

He has been responsible for developing the computer modelling systems and programmes used by the institute and by water authorities throughout the world.

Until recently, hydraulic modelling was carried out with the aid of hand-built miniature models such as a planned port area, which would be subjected to wave pressure and storms in the laboratory.

Physical models have now been largely replaced by mathematical models, reducing a typical cost from DKr5m for a physical model to DKr500,000 for a computer model. For large and complex environments, such as the Bangladesh river system, there is no alternative to mathematical models.

In his work, Professor Abbott has turned what began as "computational hydraulics" into a new science of hydroinformatics, the word he used as the title of a book which he published last year.

He uses it as broad term covering the method by which various disciplines within water resource engineering can use computer data more efficiently. "We build systems in which a large variety of people, without knowing each other, input knowledge, and enable a large number of people, also unknown to each other, to access that knowledge and make use of it," he explained.

For example, a computer model of an urban sewage management system enables staff to know exactly what is happening anywhere in the system and the effect of opening or closing a particular sluice or weir.

The DHI has a total staff of 160, of whom half have PhDs or MSc degrees. It has 18 subsidiaries or agencies around the world, a turnover of about DKr100m, and it has always made a small profit, said Mr Sorensen.

The work of the Danish institutes is attracting a lot of attention from big companies, which after the end of the cold war are redeploying scientists into new fields, including environmental control.

By far the biggest of the DHI's projects is the water control system for Bangladesh, part of a programme initiated after the devastating floods in 1986. Altogether 26 projects are being carried out with the World Bank as main co-ordinator and many countries contributing aid and expertise.

The DHI initially provided a system to establish computer-based models which can simulate the pattern of floods arising from the three great rivers, the Ganges, the Brahmaputra and the Meghna, which flow through Bangladesh.

The first programme was supplemented by setting up a permanent Surface Water Modelling Centre in Bangladesh, which collects extensive data on such items as rainfall and water levels. The information gathered is used for flood management, flood forecasting and to provide the basis for the layout and design for engineering works.

Hilary Barnes

■ PROFILE: FOODMARK

Spectacular growth

DESPITE the relentless decline of the Danish fishing industry in recent years, gross exports of fish products are worth DKr14bn a year to the country.

That is because its fish processing industry has managed to ensure that its fortunes are not entirely dependent on those of the Danish fishing fleet. Imports make up as much as 50 per cent of the raw fish processed.

Foodmark stands out within the sector not just by virtue of its size but because of the speed at which it has grown in the past three years. In 1989 it had just 278 employees and a net turnover of DKr277m. Today turnover is about DKr2.4bn, and it employs 2,400 people.

The spectacular growth has been achieved thanks to an acquisition strategy formulated by Mr Lars Rahbek Hansen, managing director. He was recruited by the old investment company, SN Invest, from which Foodmark has evolved.

Mr Hansen had previously been in charge of his family fishing concern, Rahbekfisk, and it this company which Foodmark has used as the platform for its expansion. In just 2½ years a total of five companies have been bought through a strategy which has not just begun the process of rationalisation in the fragmented Danish fish processing sector but which has also taken the group into Europe.

Rahbekfisk, an oven-ready dishes specialist, was the first acquisition, although the takeover was only completed in November 1991 after a period of stake-building dating back to May 1988. It remains the largest company in the group, with about 800 employees in Denmark and 250 in England.

Two other Danish companies have also been acquired – Thorfisk Holding and Hugo Mogelberg Fiskeindustri. Thorfisk employs about 700 people and concentrates on exporting fresh and frozen fish. Hugo Mogelberg, with 250 employees, specialises in plaice exports.

The most recent acquisitions, both carried out this year, have taken Foodmark into Norway and further into the UK. The Norwegian company Nordkyn, which has a filleting factory in Meeham, was bought at the beginning of the year.

However, much the bigger purchase came in September when the group bought the Scottish company Macfish for £9.2m from Geest and Associated Fisheries. Fraserburgh-based Macfish concentrates on smoked fish and breaded products, mainly for the retail market.

Foodmark's expansion strategy has been shaped by two main factors – to secure sources of supply and to get as close to the customer as possible.

As these customers comprise many of the leading supermarket chains throughout Europe, the group feels it has to guarantee them not just quality but continuity of supply and rapid delivery.

The group has already become the leading fish processing group in Denmark and, with its Danish companies exporting 94 per cent of their production, it is also the leading Danish exporter of fish products.

Now the group has set itself a much more ambitious goal which is to become one of the leading producers of fish products in Europe. Further acquisitions are planned and are more likely to be in Europe than in the home market.

"We don't get more fish through Danish ports by buying more Danish companies," says Mr Hansen.

Nevertheless, Mr Hansen believes overcapacity means further rationalisation within the Danish fish processing industry – characterised by small, family-owned companies – is inevitable.

"The restructuring will take care of itself because the fishing industry is facing a very difficult time. It is a game of survival of the fittest," he says.

So far the strategy has certainly been successful, if judged in profit terms. The group's net result has expanded from DKr23.8m in 1989 to DKr32.2m in 1990 to DKr45.0m last year. A further positive development is expected this year.

It is not surprising therefore that the group's main shareholders seem happy to back its expansion plans, obviating the need for a stock market listing, at least in the near future.

Yet uncertainties remain, not least the impact of currency movements on a group that is so export dependent.

Christopher Brown-Humes

■ PROFILE: LEGOLAND

Enormously successful mixture

Legoland Park: Denmark's biggest tourist attraction outside Copenhagen attracts about 1.1m visitors during a five-month season

WE decided to obtain some proper consumer response before writing about the Legoland family park, the miniature township built from millions of Lego toy building bricks. So we took along Michela, aged 5½, from France.

It was a magical experience for her. She was intrigued and delighted by the model villages, with ferries and cars plying a busy trade, and so convinced by the life-size models in Pirateland (everywhere else the models are in a scale of 1:20) that she was more than half-convinced that they were real pirates, waving encouragingly to the automated marooned pirate who calls for help from passing visitors in a doleful electronic voice.

Michela loved every minute of the four-hour visit and even that was not long enough to sample all that Legoland has to offer. But by that time the adults were happy with the day's success, if ready to drop. We had to give the museum of dolls and dolls' houses and old mechanical toys a miss.

There was obvious satisfaction among the many other children in the park, which delights children up to the age of about 13 – and also a lot of parents.

There is something very Danish about Legoland, an enormously successful mixture of amusement park – not at all brassy and not too large (the site is about 10 hectares) – and town-in-miniature, as neat and as bright as Denmark's well-kept farms and immaculate fields.

In fact, it is not just one township: the park is dotted with models of many towns and villages, including Dutch, Danish and Norwegian, as well as models of famous buildings, such as Brussels' ornate 15th century Town Hall, correct in every detail and all in Lego bricks.

The word Lego comes from two Danish words "lej godt", meaning "play well"; and in the Legoland park there are plenty of opportunities to play, both with the Lego bricks and construction kits and on the fair-ground amusements.

It is a most unlikely place for a leading tourist attraction – in the middle of the Jutland heathland, at Billund, far from any large population centres. This, however, is where the Lego Group has the headquarters of what has become one of the world's biggest and most successful ventures in the manufacture of toys.

The group, a private company controlled by the Kirk Christiansen family, which founded the company in the 1930s, has about 7,500 employees, of which 4,100 are in Denmark.

Published turnover in 1991 was DKr4.47bn, on which was made a net profit of DKr341m. However, the published turnover applies only to companies employing 5,000 people, so total turnover is significantly larger.

Its manufacturing base is in Billund, but it also has manufacturing operations in Connecticut (US), Switzerland, Germany, Brazil and South Korea. Altogether the group has 36 companies in 21 countries.

It outgrew Denmark long ago. Ninety-eight per cent of its sales are outside Denmark and its biggest markets now are Germany, the US, Britain, France and Italy.

Lego has a lot of imitators and devotes considerable resources to trying to prevent them from infringing Lego patents. But the Lego product has got what it takes: the group noted in its 1991 annual report that, although there have never been more imitators, their share of the market had fallen for the fourth successive year.

In spite of its remote location, Legoland attracts about 1.1m visitors during a season, which lasts for five months from May 1 to the third Sunday in September.

It is Denmark's biggest tourist attraction outside Copenhagen. In 1991, 467,000 visitors came from Denmark, equivalent to one in 11 of the population. From elsewhere in Europe, the number of visitors was: from Germany (300,000), Sweden (140,000), Norway (66,000), the Netherlands (51,000) and Britain (45,000).

Legoland has been a success in Denmark ever since it opened in 1968, but can it be repeated elsewhere? Lego hopes so, and it has many enthusiastic acolytes abroad.

When the company announced in 1991 that it was planning to set up Legoland family parks in other countries, it received almost 1,000 inquiries, many from mayors and governors anxious to acquire an important tourist attraction for their own town.

It has now chosen six geographical locations for closer consideration, three in the US and three in Europe.

The European locations are in the densely-populated border area between Germany, the Netherlands and Belgium, and in the London area.

In the US, California, the area around Washington DC and New England have been singled out.

Each park will require an investment of about $100m, and aims to attract about 1.4m visitors a year initially. Lego hopes to decide where the first will be later this year or in 1993.

Hilary Barnes

■ PROFILE: ROCKWOOL

World's leading producer

Managing director Tom Kahler: the emphasis on research and development is a key element in the group's success

A DECISION to spend $5,000 back in 1935 buying some "primitive" drawings from a US company is the point from which Denmark's Rockwool group has developed its leading position in the world of insulation.

It must have seemed something of a gamble at the time, but the decision's visionary quality is apparent from the fact that the group is now the world's leading producer of rock wool and one of the four biggest producers of mineral wool.

Rockwool is based in Hedehusene, outside Copenhagen. It has 5,800 employees and last year turnover amounted to DKr5.20bn.

The group is not only one of Denmark's biggest privately-owned companies, it is also one of the country's most international groups. Eleven of the group's 14 factories are located outside Denmark – four in Germany, three in Norway, and one each in Canada, France, Holland and the UK.

About 80 per cent of the group's production takes place abroad and 90 per cent of customers are outside Denmark.

The conscious strategy to expand abroad early on is one of the key elements in the group's success, according to Mr Tom Kahler, managing director and chief executive officer.

Rock wool production only began at the group's Danish plant in 1937 but within three years the company also had factories operating in Norway and Sweden. It set up its first factory in Germany in 1951.

Another aspect to the group's success, according to Mr Kahler, is a constant emphasis on research and development. This has helped it to keep technologically on a par with its main rivals who produce glass wool. "Fifteen other companies in our field started up between the wars, but it was our emphasis on research and development that enabled us to survive," says Mr Kahler.

The group's most important market is Germany which now accounts for about 30 per cent of turnover, compared with just 10 per cent in 1980. The German subsidiary, Deutsche Rockwool, has 1,100 employees.

The group was swift to take advantage of the reunification process and had a sales force working on the ground in eastern Germany as early as July 1990. But the big move came in February 1991 when it acquired the largest mineral wool factory in the former GDR, located in Flechtingen near Magdeburg, from the Treuhand. Rockwool claims this made it the first Danish company to enter the East German market and acquire production facilities.

Rockwool is certainly not alone among Danish building companies in seeing the attractions of the German market. At a time when the domestic construction market has been so depressed, as many as 500 Danish building groups have been active in both eastern and western Germany. Last year it is reckoned that Danish building exports to Germany were worth DKr10bn, out of total Danish exports to Germany worth DKr51bn.

It was thanks largely to Deutsche Rockwool's contribution, where sales rose 30 per cent last year, that Rockwool was able to raise 1991 turnover by 11 per cent.

Severe competition and stagnating construction activity in many of its other markets held back the performance, and the pre-tax profit only rose slightly to DKr294m from DKr283m.

This year conditions have proved just as difficult. But the group has learned to survive the hard times.

In the early 1980s, for example, the combination of falling oil prices and depressed house-building activity took a big toll on profits.

The group makes great play of the fact that energy consumption and air pollution are greatly reduced by the use of its insulation products.

"One of our companies has estimated that each kilo of CO_2 emitted during production spares the environment a total of 550kg of CO_2, because our products reduce heating needs when installed in buildings or technical plants," says a recent annual report.

However, Rockwool is anxious not to be seen entirely as an insulating group. Its also supplies netting to the fishing industry, for example, and growing media to horticulturists.

This highlights the group's continual drive to develop new products. "Our expansion will not come from taking market share from other insulating manufacturers but from going in for more sophisticated products," says Mr Kahler.

Christopher Brown-Humes

■ UNEMPLOYMENT

Fresh sense of urgency

WITH 320,000 people out of work – 11 per cent of the workforce – it is not surprising that initiatives to tackle unemployment will play a key role in the economic debate in Denmark this autumn.

Indeed, there is a new sense of urgency about the problem because there is no sign of the jobless total coming down through any cyclical upturn in the economy.

Unemployment has been rising steadily over the past five years from 220,000 in 1987 and the hope was that this year would see the peak.

But that now looks unlikely, not least because of the recent turbulence in international financial markets and its impact on leading trading partners such as Sweden and the UK. Predictions that next year's jobless total will fall to 285,000 now look too optimistic

Many certainly feel that the government should be doing more to get unemployment down. The country now runs a substantial current account trade surplus, so it is felt there is more room for manoeuvre than there has been in the past.

There is also an argument that the country has paid a substantial price for getting inflation down to the 2 per cent level, and that employment should now be given increased priority.

In fact, the current thrust of government policy is not so much directed at new job creation as at the reform of the unemployment benefit system and at getting better value from the DKr40bn a year already spent on unemployment.

A special committee, the Zeuthen Committee, has recently looked at ways in which the financing of the benefit system might be reformed.

At present, the state pays two thirds and employers and wage-earners the other one third.

Without presenting it as a specific proposal, Zeuthen suggests that a new system under which the state, employers and employees each paid one third of the unemployment bill, might be better.

This is certainly something which Mr Knud Erik Kirkegaard, minister of labour, would like to see.

"I want employers and employees to have more responsibility for the unemployment system," he says.

"Then when they are bargaining over wages and working time, they know that the effect of their decisions could have a direct impact on unemployment and their payments into the system."

Neither the unions nor the employers totally reject reform of the current system, although both have made their support conditional.

The unions say it must not leave their members worse off, so there have to be cuts in income tax.

They also want reform to go hand in hand with a broader overhaul of active labour market policy.

Employers, on the other hand, insist the measures do nothing to harm their international competitiveness.

If reforming the finances of the system is one priority area, the other is activating the unemployed, either by finding them temporary jobs or through education and training schemes.

This is because it is felt the jobless would stand a better chance of getting regular employment if they spent their time out of work actively rather than passively, and because some fear the current system does not provide enough incentive for people to find a job.

Youth unemployment, in particular, is an area for concern because 20 per cent of the under-25s are either out of work or involved in training programmes.

A recent report from the Social Commission, which looks specifically at the question of youth unemployment, proposes cuts in some benefit levels, to provide more incentive for young people to take up training or temporary jobs.

At the same time, it says more trainee jobs and places within the educational system need to be provided.

The government has already set up a number of pilot schemes to promote practical training and employment in the private sector, hoping to win broad-based political support for more permanent measures to be introduced next year.

It is also planning specific investments in infrastructure which will be outlined in its 1993 budget. But it is not clear how much impact these measures will have on the overall unemployment total.

Mr Kirkegaard is reluctant to commit himself to specific job reduction targets, saying that too many forecasts have proved inaccurate in the past. But he does believe it will be possible to create an average of 25,000 new jobs a year to bring unemployment down to about 130,000-150,000 by the year 2000.

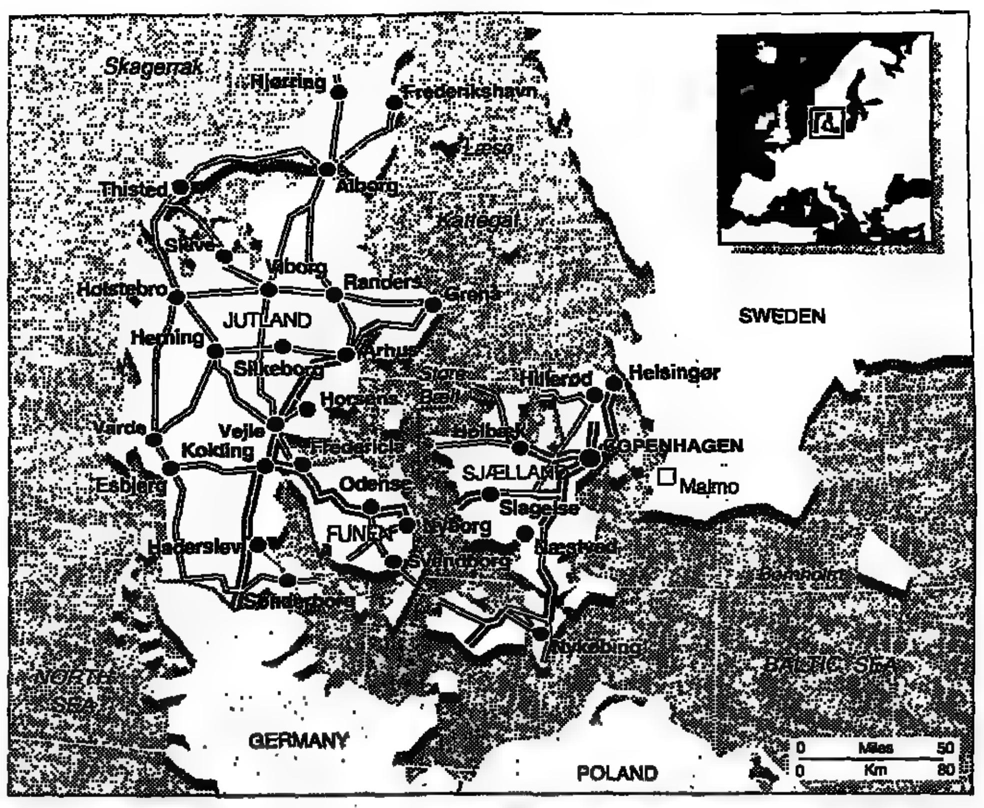
Many of those jobs will come in the service sector, he believes, catering to an increased number of pensioners, for example.

The broader hope, however, is that recent upward pressure on the jobless total will subside naturally simply because the growth that took place in the size of the labour force in the 1980s will not be repeated in the 1990s.

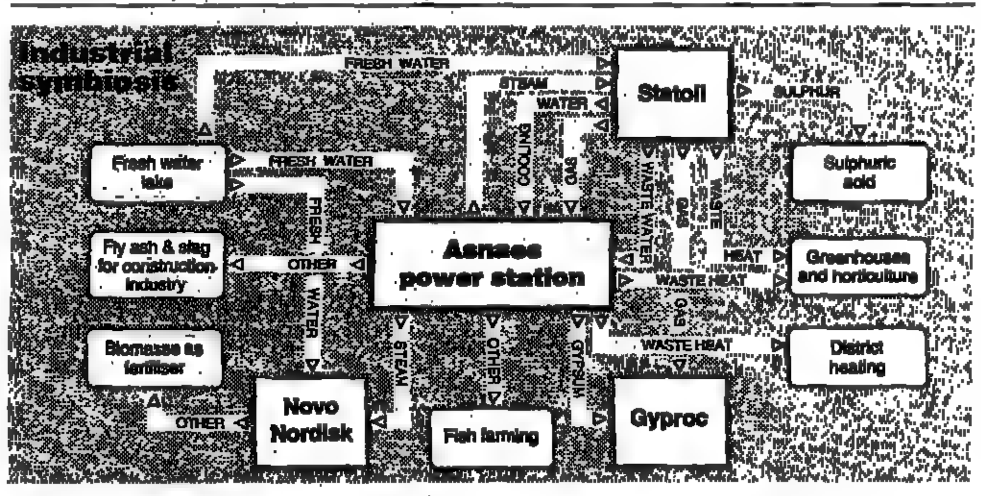
Indeed, the size of the labour force has already stabilised and it is expected to decrease later in the decade.

Christopher Brown-Humes

Labour minister Knud Erik Kirkegaard believes it will be possible to create an average of 25,000 new jobs a year



Buskers in Copenhagen: Some observers fear the current system does not provide enough incentive for people to find a job



■ INDUSTRIAL SYMBIOSIS

Fertile project exploits recycled wastes

A few years ago, the local authorities were on the brink of stopping industrial expansion at the small harbour town of Kalundborg on the west coast of Sjaelland.

Environmental officers totted up the pollution from the four plants on which the town relies and concluded that it was as much as the local environment could stand.

This was bad news for the town, as well as for the plants – an oil refinery operated by Statoil, the Norwegian state oil company, the 1.5MW Asnaes coal-fired power plant, the fermentation plants used by Novo Nordisk in the production of insulin and enzymes, and Gyproc, a Swedish-owned producer of plasterboard for the building industry.

The plant managers, however, found an error in the West Sjaelland county's arithmetic. Totalling the waste from each plant gave the wrong result because a considerable proportion of the waste from each plant was re-used by the other plants.

From this beginning, what might have turned into an acrimonious battle between the county and the industrialists has turned into a fertile project to exploit the potential for recycling wastes from each of the four plants – a process which they call industrial symbiosis.

The more the plants consider the problem, the more ways they find for re-using each other's waste products, which come in the form of water, steam, gas, gypsum, and sulphur.

"Finding new projects has become a sport for us all," said Mr Valdemar Christensen, station superintendent of the Asnaes power facility.

For the companies, and for the town of Kalundborg, the bottom line is that that the industrial operations are expanding fast and relations between the local community and its industries has improved dramatically.

The Statoil refinery is in the middle of a DKr2.2bn investment to increase capacity by 50 per cent to 4.8m tonnes of refinery products a year. Novo Nordisk and Gyproc are also increasing production capacity substantially in Kalundborg.

The project in which the plants are engaged is not being carried out as a philanthropic contribution to local development. "In the end it is strictly commercial, and there are knife-edge price negotiations between us," said Statoil manager, Mr Mogens Granboj.

Asnaes sells hot water to the town for district heating, steam to Statoil and Novo Nordisk, warm water to its own fish farm, where sea trout and turbot are produced, gypsum from de-sulphurisation of smokestack emissions to Gyproc and sulphur to fertiliser producer Kemira for sulphuric acid production.

Statoil sends cooling water and waste water to Asnaes, which uses some of it for keeping down coal dust, recycling some of the water back to Statoil in the form of steam.

Gas, usually flared off by oil refineries, is sent by Statoil to Asnaes and Gyproc as part-replacement for oil and coal.

Novo Nordick produces large quantities of biomass in the fermentation process used in production of enzymes and insulin. This is used as fertiliser by local farms.

Industrial symbiosis in Kalundborg gives a saving in use of resources of 30,000 tonnes of coal, 19,000 tonnes of oil, 1.4m tonnes of water and 80,000 tonnes of gypsum, the plants calculate.

The reduction in pollution through waste products is 200,000 tonnes of carbon dioxide and 1,000 tonnes of sulphur dioxide, 135,000 tonnes of fly ash, 80,000 tonnes of gypsum, 0.9m tonnes of water and 2,900 tonnes of sulphur.

The potential for reducing pollution and saving resources is by no means exhausted. The plants are developing new ideas all the time.

One of them, said Mr Christensen, is a heat conversion project to produce cold water – "district cooling" – but there is no large plant in the area which requires very cold water. However, he thinks that the idea of district cooling could have a big future in hot countries.

The use of biomass for power production is another idea under serious consideration.

The managers have also developed a concept of reducing pollution through waste products to zero through industrial symbiosis, but that, they admit, is still a long way off.

The Kalundborg project would never have got off the ground if it were not for close and trusting relationships between the plant managers, said Mr Kurt Hvalso, Gyproc's manager.

He thinks that this has a lot to do with Scandinavian management style, with a high degree of decentralisation to local managers. "If we had all had to ask group headquarters every time we wanted to go ahead, the project would not have worked. In other countries, strong central control would strangle a project like this," he said.

It is essential, say the Kalundborg managers, that there is sufficient trust between the plants for them to be able to talk about what they will be doing in five year's time. Without this exchange of information, it would be impossible to get the project to hang together.

The Kalundborg process has had several interesting spin-off effects on the local community.

"We used to be on the defensive in the public debate," said Mr Granboj. "Now we are on the offensive. The county has even awarded us its environmental prize."

Success in co-operation between the industries has also spilled over into a project, in co-operation with the local community, to upgrade the Kalundborg region, more especially by improving educational facilities and making it more relevant to the needs of local enterprises. The coming buzzwords in Kalundborg are now "regional symbiosis".

Hilary Barnes

■ PROFILE: NOVO NORDISK

Wide range of products

"NOVO NORDISK is a strange company. It just doesn't fit into any categories," says Mr Kurt Anker Nielsen, its chief financial officer. "Its products range from insulin to enzymes for household detergents. Basically we're a fine chemicals company, linked together by microbiology which we apply in different areas."

The group's strength is based on insulin, the essential treatment for diabetes. It generated about DKr5bn of the group's total turnover of DKr9.8bn last year.

The number of patients diagnosed each year with type one diabetes – the type automatically requiring insulin – is growing at only between 2 per cent and 3 per cent, says Mr Nielsen. However the overall market is growing at about 45 per cent in the western world, including Japan, because doctors are increasingly prescribing some insulin for type two diabetes which has traditionally been controlled through exercise and diet.

Further growth is being added by the increased use of medicine by newly industrialised nations.

The division created the Novopen, an insulin injector that can be carried around in the pocket like a pen. Since its launch four years ago, about 10 per cent of the world's insulin is sold in cartridges for such pens. Novo Nordisk controls 80 per cent of the cartridge market and is planning further developments in delivery systems such as a nasal device.

Diabetes care represents about 75 per cent of the healthcare division's DKr6.3bn turnover.

The company has focused its research in three additional therapeutic areas. These are human growth hormones, hormone replacement therapy (HRT) and central nervous system diseases.

Norditropin, the division's human growth hormone, has been highly successful, increasing its sales last year by 74 per cent to DKr669m, says Mr Nielsen. The company hopes to add further indications for the drug, such as chronic renal failure, fertility and wound healing.

Novo Nordisk's hormone replacement therapies are also growing rapidly – last year sales increased 52 per cent to about DKr400m. Mr Nielsen attributes the growth to the additional marketing muscle generated by the merger of Novo and Nordisk Gentofte which created Novo Nordisk in 1989.

Much of the company's attention is focused on its central nervous system (CNS) products. It is looking at selected areas, primarily stroke, schizophrenia and epilepsy.

Novo Nordisk realises its limitations as a medium-sized pharmaceuticals company, says Mr Nielsen. It has signed co-development deals with SmithKline Beecham, the Anglo-American group, Schering of Germany and Abbot of the US.

Mr Nielsen explains that with eight to 10 development projects with partners, the group has far more chance of bringing remunerative drugs to market.

The company has set up research and development facilities in the US and Japan. Such developments appear far removed from the bioindustrial group, which with its detergents and plant protection businesses generate sales of DKr2.6bn – about a third of Novo Nordisk's turnover.

Novo Nordisk dominates the industrial enzymes market with about 55 per cent of the world market. The sector has grown rapidly over the past four years at a rate of about 18 per cent by volume, says Mr Nielsen. But intense competition from Gist-Brocades of the Netherlands, Genencor of the US and Solvay of Belgium has been undermining prices.

The leading sector is enzymes for detergents where prices had been falling by about 3 per cent a year until 1991. They have now stabilised, says Mr Nielsen. Meanwhile, Novo Nordisk's new fat-busting enzyme – Lipolase – has been growing fast, capturing about 20 per cent of the world market. The success of Lipolase was an important factor in the 22 per cent growth in volume achieved by the bioindustrial group last year. Sales increased last year nearly 20 per cent.

Novo Nordisk has recently made the unfashionable step of entering the plant protection business. Most companies are trying to leave the sector because of the high risks and low returns involved.

Mr Nielsen is adamant, however, that the move is the right one. The company aims to develop bio-pesticides – products based on bacteria which are toxic to pests but harmless to everything else. He believes bio-pesticides are capable of revitalising the agrochemicals market.

The company is also targetting high value crops such as fruit and vegetables rather than cereal crops. Presently the business has sales of about $15m a year.

Novo Nordisk's stated aim is to achieve earnings growth of 15 per cent a year. Mr Nielsen believes the group has the right portfolio of products to achieve its target, although he admits the company can be driven off course by external events.

One such event that has created problems is the recent turbulence in the currency markets. More than 80 per cent of sales are not in Danish Kroner. Last month the group warned that currency instability would have a considerable negative impact on its third-quarter earnings.

Mr Nielsen is confident, however, that the company is sufficiently robust that expectations for the full–year will remain unchanged.

A strange company, but not an unprofitable one.

Paul Abrahams

Novo Nordisk's enzyme application pilot plant in Bagsvaerd, Copenhagen. The group's strength is based on insulin

■ PROFILE: COPENHAGEN AIRPORTS

New-found freedom

THE working files of Mr Niels Boserup, chief executive of Copenhagen Airports, are in boxes scattered across his office. Outside in the corridor is the sound of workmen hammering.

Mr Boserup says that the chaos is a good sign. The group's headquarters are being renovated, an indication of his company's new-found freedom to invest as it pleases.

Copenhagen Airports, the state-owned group that runs Kastrup and Roskilde airports, has only been a public limited company since October 1990.

"Before then we were a state body, covered by all of the restrictions of a state body," says Mr Boserup. He explains that the authority's expenditure was put into one account while it drew income from another.

If the airports made money, it still had to ask a treasury sub-committee of parliament to spend it.

"The transformation into a public limited company has led to big changes," he says. "We can't ask the state for money any more. We have to earn it. The group has used its new opportunities to tighten its ship and rein in expenditure."

The number of employees has been cut by about 4 per cent. The company has stopped using outside electricians to repair the airports' monitor screens, employing instead internal staff who had to be on site anyway, for emergencies.

The group's financial performance remains steady, if not glowing. It made DKr169m on a turnover of about DKr1.2bn during its first 15 months to December 31 1991.

Mr Boserup expects the profits for the 12 months of 1992 to be greater than last year's 15 months figure, on turnover of about DKr1bn.

The group, given its modest profits, faces some formidable capital investment in the near future. Kastrup airport is set for rapid growth, the company believes. At present, it has capacity for 15m passengers and handles about 12m a year.

A recent study for the company reckons the airport will be used annually by 18m passengers by the end of the decade. Scandinavian Airlines System, the main airline at Copenhagen, estimates it could reach 20m by then. That is despite a 6.4 per cent fall in numbers last year because of the Gulf war.

SAS wants the first stage of its terminal to be completed by July 1997, the same date that the railway opens. The only problem is, who pays?

Passenger growth will be partly driven by worldwide expansion in the use of air travel, argues Mr Peter Hoeland, managing director of SAS Denmark. However, he expects passenger throughput to increase significantly because of political events in the region,

in particular the entry of Sweden, Finland and possibly Norway into the EC. This will generate significant traffic through Copenhagen, Scandinavia's main hub. In addition, SAS has already set up regular flights to Latvia, Lithuania and Estonia.

Further routes to St Petersburg, Leipzig, Kraków, Kiev and Minsk, either already exist or will be established within a year.

"Europe is moving north and west and Copenhagen is ideally located to become Europe's northern hub," says Mr Hoeland.

Further growth will also be driven by new infrastructure projects. In particular, the completion of motorway and high-speed train networks linking Copenhagen with south Sweden will add 3.5m people to the airport's existing 5m catchment area, says Mr Hoeland. A railway station is planned at Kastrup itself, linking the airport with the high-speed trains to Scandinavia and Germany. A light railway capable or reaching the city centre in seven minutes is also planned.

The airport has already embarked on a new DKr500m concourse at pier A, but will need more terminal capacity to meet projected demand. There are two plans on offer, one from SAS, the other from Copenhagen Airports. SAS wants to create a terminal specially designed for SAS that will give the airport and airline significant competitive advantage as a European centre.

It plans a DKr8.5bn terminal with a capacity of between 15m and 20m passengers a year.

SAS wants the first stage of its terminal to be completed by July 1997, the same date that the railway opens. The only problem is who pays for the building.

The airport's balance sheet is incapable of handling the largest single airport investment in Europe. Last year, the company spent only DKr396m on capital investment. Meanwhile, SAS reported pre-tax profits for the first six months of 1992 at only SKr502m on turnover of SKr16bn.

Neither SAS nor Copenhagen Airports wants to pay for the project.

Mr Boserup is proposing an alternative terminal, for use by all airlines. This terminal, which he describes as modern but more conventional than SAS's plans, would add about 7m passengers a year to existing capacity and would cost about DKr3bn. He says if the SAS terminal is not started during the next year, he will go ahead with the alternative plans.

The problem facing Mr Boserup is that an investment of DKr8.5bn would almost certainly cast a shadow over Copenhagen Airports' future; the group is due to be partly privatised. The Danish parliament passed legislation earlier this year to sell 25 per cent of the company on the Danish stock exchange. Mr Boserup says the flotation is unlikely to take place for 18 months, when the company would be able to report three years' results – a requirement of the Danish stock exchange.

"This is a major political challenge," says Mr Hoeland. "Although the airport cannot carry such a large project on its balance sheet, there are lots of financial instruments available. In the very near future we will open negotiations with Mr Boserup on possible financial structures on how to implement this project. We will be looking for institutions, such as pension funds, in either Sweden or Denmark, which are prepared to look at a project with a perspective of 20 to 30 years. I have no doubt the terminal will be built."

Paul Abrahams

■ PROFILE: FLS

Rapidly expanding group

FLS, Denmark's largest industrial conglomerate, is something of a mystery. With more than 20,000 employees and an annual turnover of DKr12.6bn, the group is market leader in some of its sectors, yet remains largely unknown in the wider world.

Part of the reason for its obscurity is the unusual range of industrial areas in which FLS operates. For example, the group's largest activity is cement manufacturing equipment, a sector in which it is world leader, enjoying between 50 to 60 per cent of the market.

Most of its remaining operations emanate from this core business. Environmental services, building materials, packaging, and services such as freight forwarding and finance all derive from the cement equipment business.

The group has been expanding rapidly. Since 1987, FLS sales have more than doubled, assisted by a massive annual investment programme of DKr1.4bn spent on capital projects and acquisitions.

Recently, however, FLS has made a strategic move away from its core area, diversifying into the aerospace sector and raising the profile of the company.

The diversification follows a restructuring of the group, boosting efficiency and generating the necessary cash-flow to move into the new area.

Mr Birger Riisager, president and chief executive, explains: "FLS in the early 1980s was a large group with a parent company that just wasn't on its toes. It was incapable of working out where it was making and losing money."

In 1987 headquarters staff was cut to only 40 people. Top management was overhauled and reduced from 25 to only 10. Many of these were new appointees from outside the company or further down the organisation. Operating companies were given far greater freedom to make their own decisions.

At the same time, the cement equipment business was reorganised into seven divisions, moving responsibility down the organisation, says Mr Riisager. This freedom helped the group internationalise, particularly into south-east Asia, which is now one of the few markets still growing. The cement equipment operations were given a further boost in 1990 when it acquired Fuller, one of its main competitors in the US.

The cement equipment business is the most important and now most profitable part of the group, claims Mr Riisager, making about 45 per cent of group profits.

The business has survived the recession in Europe and the US well, by concentrating on south-east Asia and south and central America.

Meanwhile, some of the operations emanating from cement continue to perform well. Miljo, for example, the environmental protection business, is enjoying exceptional growth, says Mr Riisager. The company develops, designs and markets complete flue gas cleaning systems for the power, incineration, cement and paper and pulp industries. Mr Riisager says Miljo's sales were only about DKr200m in 1989 and he expects them to reach DKr1bn this year.

FLS's freight forwarding business, Dan Transport, is also doing well, although Mr Riisager admits its success is strange given the bad state of the freight market. Sales increased from DKr1.2bn in 1990 to DKr1.6bn last year.

Mr Riisager says the subsidiary is highly profitable.

Some FLS businesses are suffering from the recession, however. The depressed state of the building market in Denmark has hit its building materials business.

Similarly, the demand for FLS polyethylene packaging has been hit. The company is the fourth-largest European manufacturer of polyethylene sacks. Demand has collapsed in Europe by as much as 40 per cent.

Mr Riisager admits that many of the group's businesses are mature, with little prospect of big growth. This was recognised in 1987, when the FLS had recovered from a loss of DKr200m four years earlier, but was still only generating profits of DKr73m.

This lack of growth explains why FLS decided to move into the aerospace sector. From virtually nothing in 1988, the company has become the largest independent third-party aircraft maintenance contractor.

"We had a small ground support equipment company in the UK, and Lovaux, a British group, approached us to buy the business.

"We decided to buy Lovaux for DKr150m instead," says Mr Riisager.

He says the industry was growing extremely rapidly, but was not structured at all, consisting mainly of small and medium-sized businesses. Large airlines needed to go to lots of different companies for their maintenance needs.

In January 1991, the group acquired the engineering division of Dan Air, the troubled UK airline, for £27.5m. Dan Air's business only had one wide-body hanger, so FLS started planning a new one, says Mr Riisager.

However, FFV, another aircraft maintenance business, Swedish-owned but mainly operating in the UK, also became available during the autumn of 1991.

FFV had hangers at Stansted and Manchester, each capable of handling two Boeing 747s.

FLS's spending spree was launched just as the aviation industry was entering its worst down-turn since the Second World War. Mr Riisager admits the market remains difficult, with about 10 per cent of the world's aircraft fleet parked in the Californian desert. However, he reckons the market will move back to normal next year, although six months ago he thought it would be this year.

The businesses have been reorganised into an engineering outfit based in Stansted, an aerospace support operation at Gatwick supplying components to airlines and FLS Aerospace Lovaux whose activities range from design and production of light aircraft, to manufacture of ground support equipment and military aircraft maintenance.

United Airlines and Continental of the US have both recently signed contracts with the division. Dan Air has also extended its three-year contract for a total of six years.

Paul Abrahams

FINANCIAL TIMES SURVEY

AUSTRIA

SECTION IV

Thursday October 8 1992

The start of EC entry negotiations and the challenges posed by changes in eastern Europe make this a milestone year for Austria. Prosperity and stability continue, but there are signs of economic slowdown. **Ian Rodger** reports

A certain confidence

CONFIDENCE may be in rather short supply in most of Europe these days, but Austria is full of it.

The country's economy remains relatively robust, its renewed ties with eastern Europe are proving more profitable than expected, its handling of the crisis next door in the Balkans has been sensitive and its creaking political structure looks set for an overhaul.

"Growth has been slowing down," says Mrs Maria Schaumayer, president of the Austrian National Bank. "But I do not see even a soft landing. I think we can steer safely away from the peaks and trees."

The country certainly steered clear of last month's turmoil in European currency markets, thanks mainly to its policy of pegging the schilling to the D-mark. And it appears that the economy will grow at 2.5 per cent this year, and about 3 per cent next year, after 3 per cent last year.

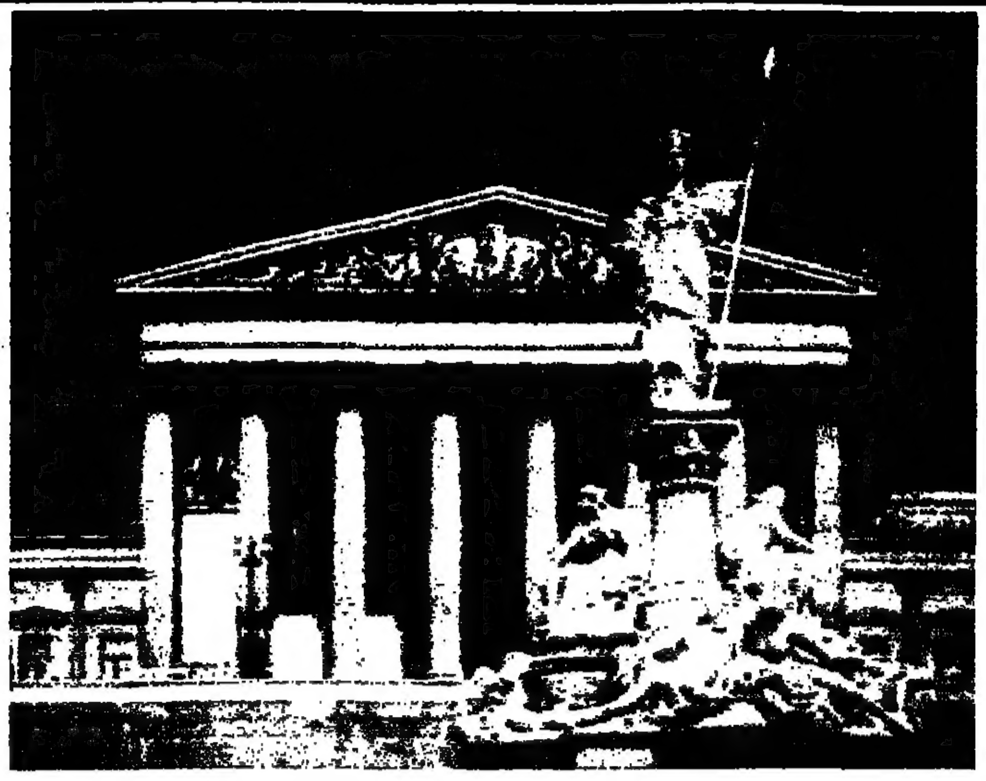
Perhaps the one significant obstacle is the turmoil over the future of the European Community. Austria, which applied to join the EC three years ago, was hoping that formal negotiations on this would start early next year. In the wake of the débâcle over the Maastricht treaty and the breakdown of the European monetary system, it is no longer clear when negotiations can begin or where they will go.

A long needed political renewal was signalled in June with the unexpected election of Mr Thomas Klestil, a former diplomat, as the country's new president.

The election itself was a welcome milestone, at last bringing to an end the sorry term of Mr Kurt Waldheim, the former United Nations secretary general. Questions about Mr Waldheim's war record made it impossible for him to carry out his largely ceremonial role, and paralysis in the political system made it impossible to get rid of him.

But the fact that Mr Klestil – a little known figure with no political experience – was elected confirmed other indications of significant changes in Austrians' political behaviour. In the first ballot in April, Mr Klestil was placed a surprisingly strong second among four candidates. He then romped home in the run-off against the Democratic Socialist favourite, Mr Rudolf Streicher, the former transport minister, selected by Mr Franz Vranitzky, the Chancellor.

Austria's political scene in the post-war period has been characterised by a self-serving sharing of power between the conservative Austrian People's Party (OVP) and the Democratic Socialist party (SPO). Voter loyalty was assured by a sharing of patronage, extending throughout the public service – it was supposed to be the socialists' turn this year to pick the president – and the huge nationalised industries.



The parliament buildings in Vienna, Austria's capital

Now, even though the patronage system lives on, voters apparently no longer feel bound by it. "Austrian voters have become more flexible," says Mr Jörg Haider, the controversial leader of the Austrian Freedom Party (FPO). "From now on, any result is possible in an election."

Mr Haider, a self-professed populist who has achieved notoriety both at home and abroad for expressing right wing views, has recognised that the hypocrisy of the so-called black-red coalition is a popular theme with voters, and he jumps on every opportunity to attack it.

This year, his main target has been the central bank, long a highly paid retreat for worthies from both main parties. The SPO benefits additionally, by owning 5 per cent of the bank's shares.

Mrs Schaumayer, whose own salary of more than ASch5m a year (even after a voluntary 30 per cent cut) has figured prominently in Mr Haider's attacks, grits her teeth at the mention of his name. "Salary levels are high, and they should be better in line with the banking business," she admits, but she says that reforms had begun before Mr Haider began shouting.

Whatever the rights and wrongs of the matter, Mr Haider has gained grudging approval, even from those who would never think of voting for him, for bringing attention to this and other examples of privilege. Many people think he will be the one actually to break the red-black mould. His own view is that he could become chancellor after the 1998 election.

Mr Haider has also drawn attention to himself for apparently changing his view on Austria's entry into the European Community. From having been an unconditional supporter of entry, he suddenly announced in late August that it was a bad idea. Cornered on this apparent flip-flop, he said he was still in favour but would impose some conditions.

Pressed further, he said the problems were on the Austrian side, not the EC side.

Critics saw it as a typical attempt by the Freedom Party leader to capitalise on a current trend – in this case, towards increasing doubt about the EC among Austrian voters, and opponents have used this to claim that Mr Haider is an unreliable opportunist. Mr Vranitzky says Mr Haider is becoming "more and more unpredictable," and suggests that he may even be losing his hold over his party.

The EC has lost credibility in Austria in the past year as a result of its dithering over the crisis in the former Yugoslavia. According to one recent poll, little more than a third of Austrians saw the EC as a good thing. Austrian leaders, on the other hand, believe that the Yugoslav crisis has shown clearly the need for more integration of European foreign policy along the lines proposed in the Maastricht treaty.

Austrians are quietly proud of their own handling of the Yugoslav crisis, having taken in far more refugees per capita than any other western European country. To date there has been no sign of the severe social strains that appeared in Germany in recent months. About three quarters of the refugees are staying in private homes, so there is no provocative concentration of them.

Austrian diplomats despair of any early settlement of the conflict, although they feel the UN is on the right path following the London conference last month. They are now spending considerable effort trying to discourage hotheads in other neighbouring eastern European countries from resorting to force. Mr Ernst Sucharipa, head of the political section in the foreign ministry, says: "We point out to them that if they want to join the Council of Europe, then certain standards on minority rights have to be observed."

Austria's rapidly growing trade with eastern Europe remains one of the brightest spots in its remarkably resilient economy. This trade now accounts for 11 per cent of gross domestic product compared with only 8 per cent before Comecon collapsed, and reflects the ease with which Austrian businessmen can move in the countries of the former Austro-Hungarian empire.

Still, the economy is slowing down, and with a general election now less than two years away, some of the more politically sensitive items on the government's agenda may fall by the wayside.

Some reform of the country's capital markets is on the way, notably to clamp down on insider trading and perhaps to encourage more companies to come to the stock market.

But the government's ambitious privatisation programme is in trouble, partly because of the depressed state of the stock market, but also because of huge losses at Austrian Industries, the main candidate for privatisation.

It all points to a rather choppy period in Austrian public life in the run-up to the next national elections in 1994 but, as Mrs Schaumayer might say, the country will undoubtedly continue to avoid any really dangerous rocks or trees.

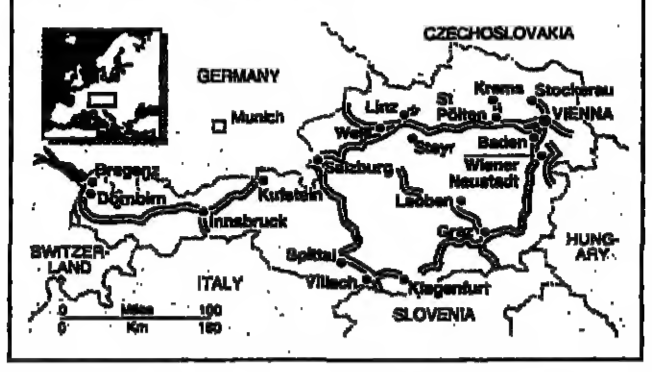
KEY FACTS

Area	83,859 sq km
Population	7.78 million
Head of State	President Thomas Klestil

ECONOMY

	1990	1991
Total GDP ($bn)	157.6	164.2
Real GDP growth (%)[1]	4.6	3.0
Components of GDP (%)		
Priv[illegible] consumption	55.3	55.0
Tota[illegible] vestment	25.6	26.1
Government consumption	17.9	18.0
Exports	41.0	41.0
Imports	-39.9	-40.1
Reserves minus gold ($bn,Dec)	9.4	10.3
Narrow money growth (%)[1]	5.2	7.5
Govt bond yield (% pa,avg)	8.7	8.6
FT-A share price index [1]	-4.4	-14.2
Main trading partners (%)[2]	Exports	Imports
EC	65.8	68.8
Germany	39.2	44.2
Italy	9.5	8.8
Switzerland	6.4	4.3
France	4.4	4.3
UK	3.6	2.7

Notes: (1) Percentage change over previous year end.
(2) Percentage share by value in 1991.
Sources: IMF, Datastream, EIU.



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VIENNA'S economic policymakers, like the well-ordered and bourgeois city they live in, attract one description above all others: smug.

Fluent and confident when reciting Austria's catalogue of economic achievement, they have to stop and think hard to come up with any flaws.

There is good cause, however, to be satisfied. Austria has remained a charmed island of prosperity and stability.

At no time was that clearer than when the European exchange-rate mechanism splintered – and the Austrian schilling actually rose against the German D-mark to which it has been tied for 20 years.

The confidence of the foreign exchanges is firmly grounded in economic fundamentals. Austria's combination of economic indicators is arguably the most favourable in the developed world, winning much praise from the Organisation for Economic Cooperation and Development in its latest annual report on the Austrian economy.

After growth which, over the last three years, has outstripped that of every other OECD member, the economy looks likely to dodge recession altogether. The Austrian Institute of Economic Research (Wifo) has predicted that gross domestic product (GDP) will expand by 2.2 per cent this year and 3.0 per cent in 1993. An expected downward revision in this forecast will still see growth most west European countries would envy.

Nicholas Denton reviews the economic outlook

Exports prove resilient

Growth seems well clear of constraints. Although consumer price inflation has risen one percentage point to the 4 per cent level since the end of last year, the rate appears to have peaked. And, despite the fact that Austria is growing faster than its trading partners, the current account remains in rough balance.

The budget balance remains under control too, steadied by unexpectedly robust tax revenues. The government forecasts a deficit of 3.0 per cent of GDP this year, falling gradually to 2.5 per cent in 1994.

That represents a slippage on earlier plans, earning some rare criticism from the OECD. But the Austrian National Bank stresses that Austria is meeting the European convergence criteria – there are few countries which can boast that.

However, it has to be said that there is increasing support for the view that Austria's economic existence cannot remain charmed forever.

"For the first time my feeling is that it cannot go on," says Mr Johann Fernleiter, deputy secretary general of the Federal Economic Chamber, the employers' organisation which is calling for a zero pay round this year.

But the mood remains sanguine. "If there is a soft landing it will be very soft," says Mrs Maria Schaumayer, the president of the Austrian National Bank. Even that judgement might be on the pessimistic side. Austria's chief central banker goes on to assert that the economy will altogether avoid collision with the ground.

So what gives Austria's economy its buoyancy?

On the side of domestic demand, consumer spending and construction investment have given lift. Retail trade, held up by gently rising real incomes and a fall in the household savings rate, grew 3.25 per cent in the first half. Meanwhile the building industry, enjoying a record boom and still working on a backlog of orders, is set to grow by 5.5 per cent this year.

But the key to sustained growth has been the resilience of Austria's export growth, albeit at a reduced rate, in the face of global slowdown.

First came expansion and infrastructure spending after reunification in Germany, Austria's largest trading partner. Austria rode Germany piggy-back, increasing exports without having to fund reconstruction of the east.

Now, as Germany fades, succour is coming from an unexpected source – eastern Europe. Deliveries to Czechoslovakia, Hungary and Poland exploded to 24 per cent in the year to the first half, helping total exports to grow 5 per cent.

With an economic formula as winning as Austria's, it is a wonder that anyone should want to tinker. Indeed, Austrian policymakers are very cautious about structural change.

But the outside world is forcing a faster pace.

Austria's desire to join the European Community dictates that the government removes much of the protection behind which many industries have sheltered. Above all, Austria's system of agricultural subsidies – so overblown that it attracted a special, critical mention in the OECD report – must be reworked.

"Convergence gives us a push to liberalise – and do it more rapidly," says Mr Peter Henseler of the finance ministry's European integration department. "It is like a fresh wind which blows into old rooms."

Another impetus for reform is coming from the encroaching globalisation of capital markets. Domestic investors are diversifying into foreign currency holdings but at the same time foreign investors have lost interest in Austrian sluggish markets.

The resultant outflow of long-term capital is unbalancing the market and putting upward pressure on interest rates, according to Mr Johann Maurer, economic analyst at Creditanstalt Bankverein.

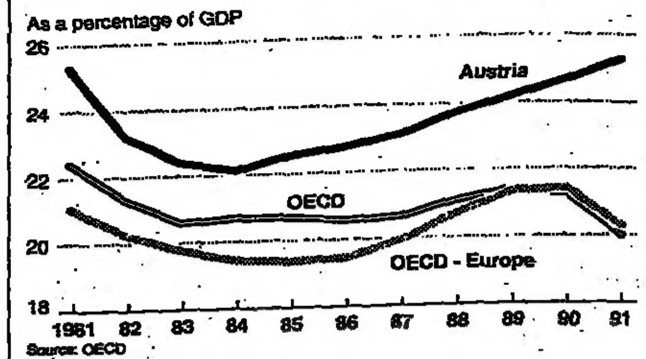
That leads a growing number of policymakers and observers to argue for reform to increase the supply of stocks and attract foreign investors back to the market. One change which is being actively considered is to change wealth taxation so that it does not penalise the owners of private companies when they go public.

Looking further ahead, it is perhaps the opening up of eastern Europe which will have the most violent impact on the economy.

To date Austria has clearly benefited from growing trade with its eastern neighbours. Exports have risen faster than imports; and estimates of the number of jobs which will be lost in the foreseeable future as a result of eastern competition range from a negligible 20,000 to a manageable 100,000.

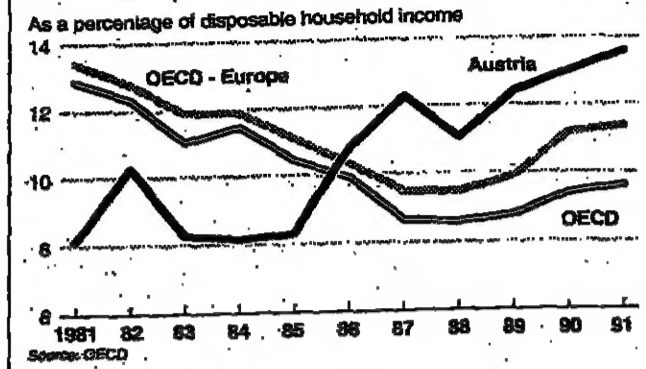
But already the food, cement, agricultural machinery, textiles and leather industries are suffering from cheap eastern imports. And the challenge is just beginning.

Gross fixed capital formation



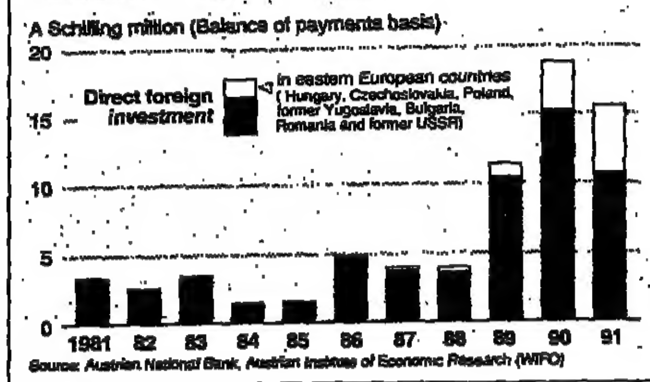
Source: OECD

Savings



Source: OECD

Austrian capital outflow



Source: Austrian National Bank, Austrian Institute of Economic Research (WIFO)

Structural problems bedevil the market

Equity is in short supply

"AUSTRIA – a time to be buying," cried the headline of a bullish study on the Austrian stock market published at the end of August by US investment bank Morgan Stanley.

Coming after two years of sharp declines in volumes and prices, this was something that market participants wanted to hear. The report flashed through Vienna's depressed financial community at facsimile machine speed.

More important, the leaders of the financial community have finally got together to address the not inconsiderable structural problems that bedevil the market. Now that Vienna has a chance of becoming a serious regional financial centre in a rejuvenated central Europe, there is a greater sense of urgency about addressing these problems.

A few days ago a high powered committee chaired by the finance minister met for the first time with a mandate to put things right. The main problem is an inadequate supply of equity. Trading volume in the 10 leading shares in the first half of 1992 amounted to only ASch47.1bn. The market is open for only three hours a day and only 18 shares are continuously quoted.

Supply is hindered by the fact that many of the largest companies in Austria are state owned. The börse would like to see the process of privatisation, which has seen half a dozen companies come to market in recent years, speeded up.

The government is also looking seriously at a change in the tax system that would encourage owners of companies to come to the market. At the moment, wealth tax is a deterrent to them, because it is paid on market value of quoted companies but only an assessed value on private companies. This change is on the agenda for the next important tax overhaul, scheduled for the end of next year.

There are also problems on the demand side. General insurance companies are allowed to invest only 5 per cent of their liability funds in equities. And, because the government provides very generous pensions to all citizens, there are very few private pension funds in the country.

Individuals have little experience of investing in equities, prefering to stuff their savings into anonymous savings accounts which are taxed at only 10 per cent. The government intends to raise the tax to about 20 per cent next year, which could make equities look more attractive.

The börse has become infamous lately for insider scandals. Within the past year there have been two cases of substantial trades taking place in advance of a company announcing a serious deterioration of its profits.

At the moment, insider trading is not a criminal offence. The börse has no effective means of enforcing its regulations on members. The government intends to amend the börse law later this year to make insider trading a criminal offence, but both bankers and government officials are sceptical about eliminating insider action so long as the number of participants in the market is so small.

Ian Rodger

Banks worry over foreign competition

Earnings squeezed

IT HAS been a dreadful year for Austrian banks so far, with little prospect of any relief in the second half.

But the one benefit is that the on again-off again process of reducing the ridiculous levels of overcapacity in the industry seems to be perking up. For the record, there are 1,165 banks in Austria today, down by 144 in the past decade.

Profits of all the leading banks were well down in the first half, as high interest rates squeezed already wafer thin spreads between borrowing and lending. The stock market remained in the doldrums.

Partial operating profit (pretax profit, excluding exceptional items) of Bank Austria, the bank formed by the merger a year ago of Zentralsparkasse and Osterreichische Länderbank, tumbled 15.7 per cent to ASch815m. Creditanstalt, the number two bank, which did not have exceptional merger expenses to deal with, saw its partial operating profits drop 9.5 per cent to ASch845bn.

Giro's main traditional business has been investing funds that savings banks must by law deposit with it. But the savings banks are gradually being freed to invest where they like, and realise they can get better returns in the open market than with Giro.

The earnings squeeze on the banks appears finally to have forced them to abandon the frantic battle for market share that has characterised the sector in recent years. Bank Austria, exercising its new role as market leader, raised its lending rates after the German Bundesbank hikes in July, and others duly followed. Customer charges have been increased.

All the banks talk about cutting costs, and Bank Austria executives are pretty well decided to cut about 60 branches out of their merged 360 total over the next couple of years. it is probably significant that the merger that created Bank Austria has concentrated market shares.

Also, the banks are increasingly worried about foreign competition. German banks in particular have become more active in the Austrian securities market, bankers say.

Medium term, the anticipated raising of withholding tax on savings accounts and the outlawing of anonymous accounts could cause a significant outflow of funds from the banks. Austria now has one of the highest savings rates in the world, nearly 14 per cent of net disposable income.

As for further restructuring in the banking industry, Giro is the subject of most speculation these days. Because its natural franchise is fading, Giro has been trying to build up its own network of branches.

The snag is that the two largest shareholders in Giro are Bank Austria and Erste Osterreiche Spar-Casse-Bank. With their own savings bank networks, they appear to have joined forces to try to prevent Giro from becoming more powerful.

Negotiations on a merger between Erste and Giro came to nought last year, but they could be revived in the future. Or Giro could be gobbled up eventually by Bank Austria.

There was speculation in Vienna last month that Bayerischen Landesbank, the large Bavarian savings bank, would take a 10 per cent stake.

Ian Rodger

Ian Rodger reviews a political scene very different since the presidential election

Voters turned more thoughtful

THE UNEXPECTED triumph of Mr Thomas Klestil in last spring's presidential election campaign may turn out to be a watershed in Austrian politics.

It was certainly an illustration of thoughtful voting – something for which Austrians had not hitherto been noted. It may mark the beginning of a recovery of the fortunes of the conservative Austrian People's Party (OVP). And it has already made life more complicated for the democratic socialist chancellor, Mr Franz Vranitzky.

Because the former president, Mr Kurt Waldheim, was unable to fill many of his roles, Mr Vranitzky has effectively been both president and chancellor for the past five years. Now, suddenly, there is a real president expressing opinions, making speeches, visiting refugee camps and hobnobbing with foreign dignitaries. And it is not the president that Mr Vranitzky wanted. The chancellor had backed Mr Rudolf Streicher, a fellow socialist and former transport minister, in the election.

In the first few weeks after Mr Klestil, a conservative, moved into the sumptuous Hofburg palace, the chancellor was looking distinctly out of sorts, prompting the media to speculate on what one magazine called Vranitzky-dämmerung (the twilight of Vranitzky).

According to Conservatives, it is not only the presence of Mr Klestil that depresses the chancellor, but also the whole political outlook. Mr Vranitzky has had a fairly easy ride since his party's strong showing in the 1980 election, facing few really tough decisions and knowing in any event that his opponents were in disarray. Opinion polls have consistently shown him to be the most popular politician in the country, and he has presided over the nation's affairs rather like an avuncular chairman.

Now he faces a tough two years until the next general elections, filled with no-win legislation such as cutting taxes on the rich and reducing state pension benefits and raising the retirement age for all.

Meanwhile, the hitherto divided and moribund OVP has a new sense of purpose following Mr Klestil's victory. The party has followed up by electing the attractive Mr Bernhard Görg to lead it back to respectability in the city of Vienna. In last November's city election, the OVP was knocked into third place by the fast rising Austrian Freedom Party (FPO), led by Mr Jörg Haider.

Mr Görg is widely seen as a potential successor to Mr Erhard Busek, the latest in a succession of rather colourless OVP national leaders.

The most sanguine Conservatives talk of forming an alliance with the FPO to displace the national coalition government. The OVP has become increasingly uncomfortable as the the junior partner to Mr Vranitzky's Democratic Socialist Party (SPO) since 1986. "Austria has missed the great conservative trend of the 1980s," one veteran OVP member says wistfully.

At the moment, an OVP-FPO coalition is not an option, as the SPO has 80 seats, the OVP 60, the FPO 33 and the greens 10 in the federal parliament, but it could be possible after the next election.

Many – perhaps most – conservatives would not contemplate an alliance with the FPO as long as Mr Haider, a controversial populist, was at its head. But they seize hope from the fact that Mr Haider has had to contend with growing dissatisfaction in his party over his purges of internal opponents and his oscillation on various policy issues. On the other hand, an FPO without Mr Haider in charge might lose so much popular support as to be of little use as a coalition partner.

It was noticeable that Mr Vranitzky returned from his summer holidays last month looking refreshed and more confident than for some time. Some observers say he may not be that upset after all that Mr Streicher was beaten in the presidential election. Mr Streicher, who has since left politics to become chairman of Steyr-Daimler-Puch, was the most likely challenger within the SPO to the chancellor.

Mr Franz Vranitzky, the chancellor, interviewed by **Ian Rodger**

'Interpretation of neutrality'

QUESTION: *A year ago, you said the European Community was not to be criticised too much for its clumsiness in responding to the Yugoslav crisis. Do you still feel that way?*

Answer: It is still true that the instruments embedded in the Treaty of Rome and other regulations were not meant to cope with a crisis like that in Yugoslavia. But I also think that the will to end the shooting there has turned out to be rather underdeveloped.

Q: *You have favoured applying economic sanctions against Serbia. Do you still think they can work?*

A: One cannot give a very strong report about the working of sanctions so far. There has been some debate about our sending customs officers on a voluntary basis to one or two countries bordering Serbia. In the meantime, the security council of the UN came to the conclusion that there should be military assistance accompanying the humanitarian assistance, and I think this is a method which should be adopted.

Q: *How do you feel western Europe has handled the Yugslavian refugee crisis?*

A All west European countries in one way or another have their hands full dealing with large increases in international migration. Perhaps other western Europeans showed too little readiness to accept that there is an extraordinary situation in Bosnia, and that actually a large number of individuals either had to leave their homes because of the shooting or were forced out by those who thought that "ethnic cleansing" could be achieved.

Q: *How worried are you about a deterioration in stability in eastern Europe if western Europeans do not substantially increase their aid?*

A: I see a very close connection between economic developments and political developments in eastern European countries. They need western help in developing their economies. On their own, they will not be able to reach success. I disagree with those who advocate a wait and see attitude, recommending to east Europeans that they should first develop market economies and then there will be cooperation. They will not be able to develop any kind of free market system without western assistance. I also think that western economic cooperation will have to serve as one of the main elements to develop political stability in these countries. Western European peace and stability could themselves be jeopardised if destabilisation develops more in eastern Europe. We see a lot of indicators of destabilisation there.

Q: *How important is the outcome of the debate over the Maastricht treaty for Austria?*

A: It has quite some significance. It has become a fashion in Europe to be more critical towards the EC than a couple of years ago. Fashions never develop by themselves, they need creators. So I think that the discussions within a number of Community member countries in which people are being more critical towards the EC, and especially towards Maastricht, influences the psychology here. People here keep saying that if even Community members are doubtful, why should we be so positive?

Q: *How do you feel about Maastricht?*

A: The next steps in European integration – namely, arriving at political union and monetary union – are necessary in order to strengthen the idea of Europe of the future. It is very odd that on the one hand people wish Europe to be a strong power and to have a stronger capacity to intervene in, say, Yugoslavia, and on the other hand they are against the Maastricht treaty.

Q: *If ratification is delayed, will it have an impact on Austria's application to join the EC?*

A: We have been told that we should prepare for a delay in our entry negotiations if Maastrict is not ratified. In this event, we would try everything

Mr Franz Vranitzky: "full co-operation on Maastricht"

to convince the EC people that they should enter into negotiations with us anyhow.

Q: *Is Austria's neutrality an obstacle to entry?*

A: I have advocated a modern interpretation of neutrality. We cannot and will not base our foreign policy on a framework that existed in Europe in the 1950s and 1960s. We will commit to full cooperation on the basis of the Maastricht treaty, but this is not a contradiction in principle to the status of neutrality.

Q: *The election of Mr Thomas Klestil, a conservative, as president, has made people wonder if the coalition between your party and the conservative Austrian People's party will last through until the next election in 1994.*

A The presidential election was certainly a setback for my party, but I do not think it was more than just that. And there is no reason whatsoever to end the present government coalition prematurely, especially when you consider that Mr Haider's party (Mr Jörg Haider is leader of the radical liberal Freedom Party of Austria) is becoming more and more unpredictable on European integration and in dealing with right wing views and opinions. It also seems that Haider's influence on the party is no longer the only one deciding the party's general view.

Q: *There is talk of a People's Party-Freedom Party coalition.*

A: I do not see a real chance of changes in the political landscape. Of course democracy – fortunately so – can be a very dynamic phenomenon, but I think the next moment to get a more precise picture of the Austrian political scene will be the election in 1994.

Q: *Opposition parties complain that you are dragging your feet on privatisation.*

A: There are some people here who always label themselves as free marketeers and free enterprise people, and at the same time they wish to push the finance minister into selling shares at a time at which the stock exchange is at an historic low. The finance minister would be criticised if he sold shares at a time when he would not get a good price. There is also the question of the difficulties of Austrian industries. What kind of dividend expectation could you offer to a potential investor in selling equity of a company that would not get out of the red for the forseeable future?

Eric Frey examines the political talents of Mr Jörg Haider

In a class by himself

AMONG Europe's new crop of right-wing populists, Austria's Mr Jörg Haider is in a class by himself.

Better than any Franz Schoenhuber in Germany or Jean-Marie Le Pen in France, the leader of the Austrian Freedom Party (FPO) has managed to spread his xenophobic and anti-establishment message and still stay in the political mainstream and maintain respectability.

By tapping adroitly into Austrians' growing frustration with the blatant patronage practised by the two main political parties, the Social Democratic Party (SPO) and the conservative Austrian People's Party (OVP), Mr Haider has brought the FPO's share of the vote from about 5 per cent six years ago to nearly 20 per cent – and made his party the leading force on the right in Carinthia and in Vienna.

With his endless attacks on established institutions and personalities, he dominates Austrian politics and forces the other parties on to the defensive. The press is constantly analysing, criticising or commending Mr Haider's statements, offering him a steady flow of publicity.

Even his enemies admit that Mr Haider is a unique political talent. Full of boyish charm and eloquence, the 42-year-old lawyer seems to find the appropriate words for almost every audience. At times he hints at an affinity to some Nazi ideas and policies, especially in Carinthia where nationalist feelings are strong. Last year he referred to deserters of the Wehrmacht as national traitors. But he emphasises his party's liberal programme in front of the national audience.

The inconsistencies in his statements are reported in the press, but do not seem to bother the voters. Even his recent vacillating on the question of Austria joining the EC appeared not to have dented his popularity. After calling for years for a quick entry into the EC, Mr Haider jumped on the growing anti-Maastricht bandwagon in August and suddenly declared his opposition to the Community.

In a lecture series in several German towns, in front of cheering, mostly right-wing crowds, he warned of the Brussels juggernaut and the "European standard man." When grumbling in his own party about this volte-face become too loud to ignore, he changed course again and reaffirmed his commitment to the EC.

Some political analysts, seizing on his remark that Austria is "an ideological abomination," wonder if he is a true Germanic nationalist or just an opportunist playing with nationalist sentiments still prevalent in Austria. While the FPO chairman often condemns the crimes of the Third Reich, in spontaneous remarks he veers dangerously close to Nazi rhetoric, which has tended to hurt his political career.

His praise for the "proper employment policies of the Third Reich" during a heated debate in the Carinthian assembly in June 1991 was clearly provoked and instantly rescinded. But it gave his coalition partners the opportunity to force him out of the governor's chair where, by all accounts, he had been extremely effective.

Political analysts are also uncomfortable with his use of aggressive phrases, such as "eradication of venom". Since taking over the party leadership in an internal coup d'état in 1986, he has ruthlessly purged the party of opponents or independent thinkers.

Following a policy confrontation in February, the party chairman, Mr Norbert Gugerbauer, and the deputy leader, Mr Georg Mautner-Markhof, resigned. Last month, Mr Ludwig Rader, the party's leader in Steyrmark, was expelled after criticising Mr Haider's behaviour.

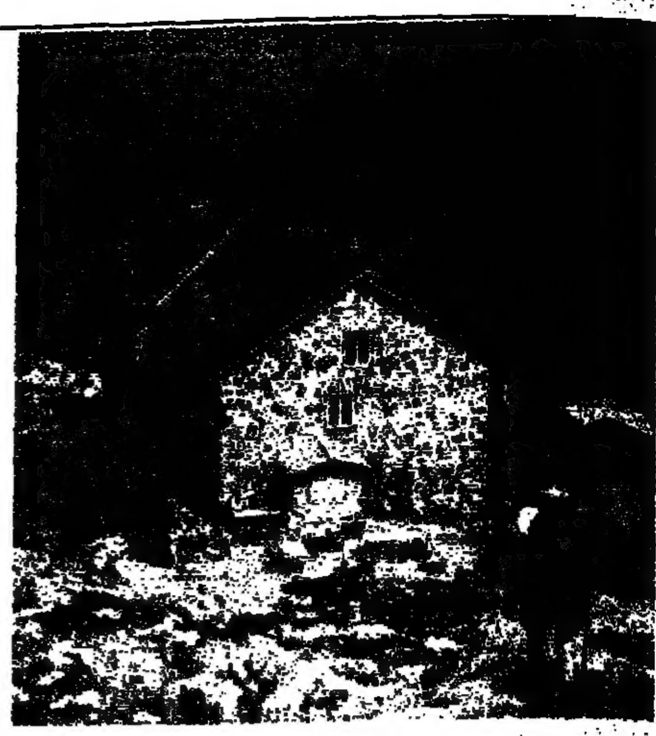
Mr Haider has tried, unsuccessfully so far, to lure the conservative OVP away from its uneasy coalition with the Social Democrats. But his party is still gaining new voters, mostly among workers and small shopkeepers. The influx of refugees from Eastern Europe and former Yugoslavia has given it new momentum.

The established parties have found no effective recipe against his appeal. Mr Haider repeatedly asserts that he will be chancellor within six years. And if any of Europe's populist right-wingers have a chance to come to power, it looks as if it could be him.

Mr Jörg Haider: Austria's leading force on the right

Tourism aims at quality, writes **Ian Rodger**

Hotel owners calculate carefully



FOR AUSTRIA'S ambitious tourism industry, a good year may not be good enough.

After several years of rapid expansion in the number of visitors and in tourism revenue, Austria's most important industry is expecting a significant growth slowdown for 1992, primarily because of the world recession.

Revenue from tourism will still reach a new record high, but hotel owners and tour operators are talking about a crisis. "The profitability of hotels is very poor, it is a real problem both in the cities and the resorts," says Mr Michael Raffling, head of the hotel and restaurant section in the Austrian chamber of commerce.

Following years of heavy investment in expanding and upgrading facilities, many hotel owners are heavily indebted and are being hurt by high European interest rates. Any difficulties filling beds are often solved by offering heavy discounts on room prices, which tends to depress profits further, he says.

"We are advising hotel owners to calculate carefully. We tell them not to subsidise their guests," Mr Raffling says. Instead, he says hotels could attract more visitors by focusing on special groups such as skiers, golfers or fitness fanatics, who are willing the pay the full price if their interests are met.

Tourism experts who are not affiliated with the hotel industry do not see any fundamental problems behind the growth slowdown. The extremely hot weather in central Europe this summer has hurt some resorts because many Austrians decided to stay at home while Germans went to the cooler Baltic sea resorts, says Mr Paul Schimka, head of the tourism section in the chamber of commerce.

The main cities of Vienna and Salzburg, where hotels rely heavily on US and British visitors, had suffered a major setback last year because of the Gulf war, and are only recovering modestly so far this year. Recession in the US and Britain and the weak dollar are keeping those groups of tourists away, Mr Schimka says.

But he expects the winter season to be very strong "because last year's heavy snowfall was the best advertisement we could get."

Mr Egon Smeral, tourism forecaster at the Austrian Economic Research Institute (WIFO), is expecting a revenue increase of 5 per cent or less from the record ASch364bn earned from tourism in 1991. This is less than targets set early in the year, but it will keep the country on a long-term growth track well above its main European competitors.

"Austria is gaining market share," Mr Smeral says. "Last year, tourism in Europe declined, and this year it is stagnating, but in Austria it is still growing."

The country continues to benefit indirectly from the war in what was formerly Yugoslavia, because tourists who might have gone there go to Austria instead. Reports of pollution in the Mediterranean may have also worked in Austria's favour.

Austria is investing heavily in advertising, and a series of exhibitions on the Hapsburg empire is generating good publicity as far as San Francisco and Tokyo.

The number of overnight stays, which climbed 5.3 per cent to 130 million last year, is likely to stagnate in 1992, but experts say this is no reason to worry. The industry is focusing on quality rather than mass tourism, and cheap private beds are quickly disappearing.

The industry continues to benefit indirectly from the war in what was *formerly Yugoslavia*

The opening of Eastern Europe has brought less of an influx of low-budget tourists than many had expected. In the early days after the collapse of the Berlin wall, hordes of tourists in rickety coaches would arrive in Vienna at weekends for a look at the city's treasures and depart after spending almost nothing. But both the coaches and the tourists' spending power have improved significantly, tourism officials say.

MR THOMAS KLESTIL, the former austere and thoughtful head of Austria's diplomatic service, has surprised most Austrians by becoming an extremely affable and outgoing president. According to one recent opinion poll, he has displaced Mr Franz Vranitzky, the chancellor, as the country's most popular public figure.

Mr Klestil succeeded the unfortunate Mr Kurt Waldheim in early July after an unexpected election victory. He was Austrian ambassador to the US from 1982 to 1987 – it was noted in his presidential campaign brochures that he knew US president George Bush as George.

Mr Klestil has put his prestige and popularity behind the campaign to win public support for EC entry.

Wine climbs slowly back to respectability

Scandal's solace

MENTION Austrian wine, and the first thing people think of is the scandal that broke out in 1985, when it was discovered that unscrupulous traders were lacing their products with diethylene glycol, better known as antifreeze.

Besides being the source of many sour jokes, this scandal – which came to light when a dealer tried to claim for the chemical in his tax return – had a devastating effect on exports of Austrian wine. From 478,000 hectolitres in 1984, the volume tumbled to a low 36,000 hl in 1988. Value dropped from ASch440m to ASch90m over the same period.

Curiously, the scandal had virtually no impact on domestic consumption, which helped cushion the blow, since more than 90 per cent of output is consumed internally.

The industry is still not even close to recovering its pre-scandal export volume, but today Austrian wine producers and merchants are inclined to be grateful that it all happened.

"Looking back, we can be very happy that it was so severe," says Mr Fritz Ascher, export marketing manager of the country's wine industry promotion agency. "We would not have been able to push through new quality control laws if this had not happened."

The promotion agency has even taken to using the scandal as a marketing tool. Until two years ago, it tried to downplay it, referring to it in official documents only in euphemistic terms. But a new brochure featuring the 2,700 year history of Austrian viticulture highlights the scandal as one of the great milestones of the industry's development, alongside Charlemagne laying down viticultural guidelines around the year 800, and the introduction of the Riesling grape in 1301.

Austria is not a traditional wine exporter. Although wines have been made in the country for nearly 3,000 years, it has been mainly for the modest home market. Even today, Austrian annual production of some 2.8m hectolitres ranks it 18th in the world, far behind the Italian and French giants, each with 60m hl a year.

Even when exporting began in earnest in the 1970s, Austria became known as a supplier of cheap and cheerful sweetened white wines, mainly to Germany. But after the scandal that niche was effectively closed. The only possible salvation was to emphasise quality rather than quantity, and to certify it. Today, Austrian wine bottles of Grüner Veltliner and Blaufränkisch are a bit like aero-engine components – each one is individually labelled and numbered so that its origin can be traced precisely.

Still, the climb back to respectability has not been easy. Producers have deliberately advanced slowly, trying first to establish credibility in speciality shops and good restaurants. Progress shows in a steadily rising volume since 1988 to 220,000 hl last year. Average export prices have more than doubled since before the scandal, from ASch10.5 per litre in 1984 to ASch26 last year, reflecting the gradual shedding of the scandal stigma.

Last year, for the first time since the scandal, Austrian producers began selling to supermarkets, notably Tesco and J.Sainsbury in the UK. "Only since 1991 can we say that there is a good distribution of Austrian wines again in foreign countries," Mr Ascher says.

So far this year, the progress is continuing, with a handsome 30 per cent rise in volume (21 per cent in value) in the first half. The industry's objective is to maintain its export growth rate of about 25 per cent a year until volume is back again to the 400,000 hl a year level. Because there is still a lot of education to do, it is concentrating only on a few large markets.

Ian Rodger

The Alsegg vineyard in Vienna, close to the city centre

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